Myronivsky Hliboproduct
one of Ukraine's leading agro-industrial companies

Annual Report
and Accounts 2012

Who are MHP?

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

MHP is the leading producer of poultry and poultry products with around 50% share of the market for industrially produced chicken. Our “Nasha Riaba” brand for chilled chicken is one of the strongest food brands in Ukraine.

MHP is constructing the biggest poultry complex “Vinnytsia” in Europe of 440,000 tonnes of poultry meat capacity per annum, the Phase 1 of which was commissioned at the end of 2012.

MHP cultivates one of the largest land banks in Ukraine (around 285,000 hectares in 2012) annually delivering harvest yields across all crops almost twice Ukraine’s average.

MHP’s meat processing operations volumes firmly retain 10% of the highly fragmented country’s market.

In 2012 MHP employed 27,800 people.

Contents

Financial highlights

Company results and profitability

Percentage increase
2011–2012

15%
Revenue

17%
EBITDA

20%
Net income from operations

65%
Increased volume of export (chicken meat)

Poultry

In 2012 MHP increased its poultry productions volumes by 5% and produced 404,000 tonnes of poultry meat (2011: 384,000 tonnes) owing to the Vinnytsia complex launch.

Annual MHP's poultry sales volumes to third parties remained relatively stable and increased by 1% to 375,300 tonnes (2011: 370,900 tonnes).

MHP's market share of industrially produced chicken in Ukraine was around 50% and 34% of total poultry consumption.

Average chicken price increased by 15% to UAH 17.19 (net VAT) per kg against UAH 15.00 (net VAT) per kg in 2011.

Sales of sunflower oil increased by 12% to 195,000 tonnes compared to 173,600 tonnes in 2011 due to the start of operations at the Vinnytsia Complex.

Export of poultry increased significantly by more than 65% compared to 2011 and comprised close to 58,000 tonnes of chicken meat, which is around 15% of total chicken sales volumes.

In line with the Company's strategy of gradual increase of poultry export, in 2012 the Company opened 10 new markets both in Central Asia and in Africa.

As in December 2012, Ukraine was listed among the countries which are allowed to export poultry products to the EU, this will open MHP new opportunities in the near future.

Grain Growing

By the end of 2012 the Company operated on around 285,000 hectares of land (2011: 280,000 hectares) due to the organic land bank growth in line with the Company's strategy.

Total harvest constituted 1,607,900 tonnes of crops.

MHP's 2012 yields as usual are significantly higher than Ukraine's average.

Other Agricultural

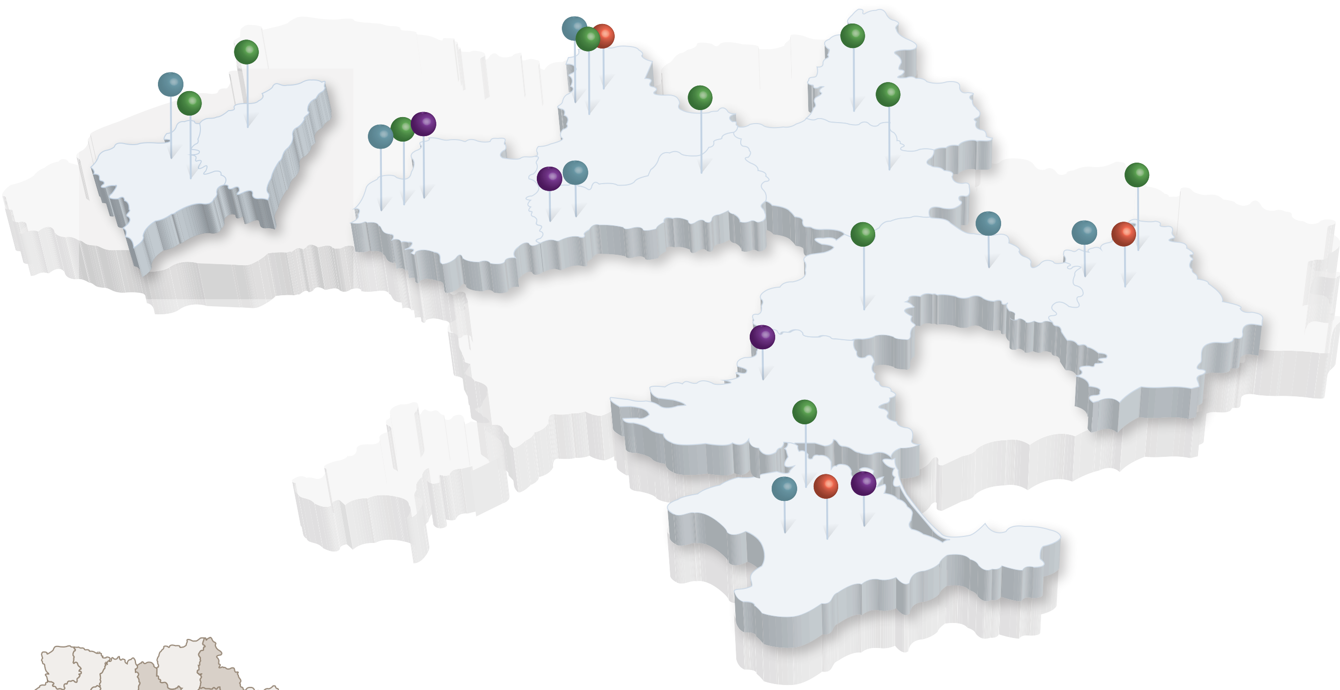
Sales volumes of processed meat products, the main driver in Other Agricultural segment, decreased by 5% to 35,200 tonnes in 2012 compared to 37,000 tonnes in 2011 mostly due to the product portfolio optimisation.

Price for meat processed products increased by 11% y-o-y to UAH 22.20 (net VAT).

MHP is a market leader with close to 10% market share in meat processing in Ukraine in 2012.

Who are MHP?

Our geographic presence



Enterprises

Poultry

- Vinnytsia Poultry Farm
- Myronivska Poultry Farm
- Peremoga Nova Poultry Farm
- Oril Leader Poultry Farm
- Druzhba Narodiv Nova Poultry Farm
- Shakhtarska Nova Poultry Farm
- Starynska Poultry Farm
- Myronivsky Meat Processing Plant "Lehko"

Grain

- Zernoproduct MHP
- Urozhay
- Agrofort
- Perspective
- Urozhaina Kraina and other entities

Fodder

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

Other Agri

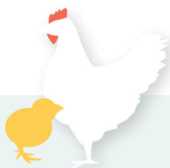
- Meat processing Plant Druzhba Narodiv
- Ukrainian Bacon
- Snyatynska Nova Poultry Farm (goose)
- Crimean Fruit Company

Product portfolio

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

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

Poultry



US$1,083m
Sales in 2012

Key products and brands

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

Nasha Riaba
Under this flagship brand, which dominates the market, we sell a wide range of chilled chicken products

Lehko!
A vast range of innovative convenience food

Grain

US$169m
Sales in 2012

Key products

- Corn
- Sunflowers
- Wheat
- Rapeseeds
- Soyabeans

Total land bank

285,000

hectares by end of 2012

Other agricultural operations

US$155m
Sales in 2012

Key products

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

Druzhba Narodiv
Pork and beef sausages, frankfurters, smoked and semi-smoked sausages and ham

Foie Gras
A range of goose and foie gras products sold chilled or frozen

Baschinsky
A wide range of products, from smoked poultry to pate and from high-quality pork to stuffed pancakes

Certified Angus
Premium fresh beef from Aberdeen-Angus cattle

What are our objectives?

Chairman's statement

Charles E Adriaenssen
Chairman

2012 was a year of considerable achievement for MHP as the Company continues to deliver well-planned, well-managed growth. Our multi-million dollar investment project "Vinnytsia" moved into trial production in summer 2012 and then since the end of 2012 has been being launched in operations, ahead of schedule, but on budget, taking an important step towards our vision of becoming a European leader in chicken meat production. At the same time, sound operational performance and strong domestic chicken meat prices have generated robust financial results, leaving the Company in a good shape to exploit the rich potential that Vinnytsia Complex will offer.

Robust financial results

Strong growth in revenues and EBITDA reflect the strength of our unique, integrated business model and careful management of costs, operational cashflows and debt. Revenue rose by 15% to US$1,408 million (2011: US$1,229 million) generating EBITDA of US$468 million, 17% ahead of last year (2011: US$401 million). Strong, sustained prices for chicken meat in Ukraine and rising grain prices internationally contributed to sustainable margins of 33%, supported by excellent crop yields, well ahead of Ukraine averages and high quality, affordable poultry products.

A sound platform for growth

The Company continues to forge ahead building a track record for steady, well-controlled growth.

We have a clear strategy focused on increasing our production, extending our exports and building our brands. Our vertically integrated business model and capital intensive projects are our keys to the successful execution of this strategy, allowing us to maximise the value of one of the biggest land banks in Ukraine and control our costs and quality. Our benchmarking has demonstrated that we have one of the lowest costs per kilo of chicken meat, making us one of the most efficient producers in the world, delivering the best quality products at a price that cannot be beaten.

The strength of the management team is also critical to our strategic progress. We have a stable, focused team with a strong commitment to quality and achieving the Company's objectives. MHP is maturing as an organisation, building a skilled and dedicated workforce who have contributed directly to these results, for which they deserve our thanks.

Robust corporate governance

The addition of Philippe Lamarche and Yuriy Melnyk to the Board at the end of 2011 meant we began 2012 with a stronger, more diversified leadership team.

As a lawyer and banker, Philippe has brought international financial and banking expertise to the Company and Yuriy Melnyk's experience as Minister of Agriculture adds political skills as well as his practical experience in agriculture. Yuriy Logush returned to his academic career during the year, leaving us with a majority of non-executive directors and we thank him for his contribution.

We undertook a formal Board review in 2012 and I was pleased with the results. It confirmed that these recent appointments contributed to a well-balanced Board with a good composition of skills and experience. There is a good collaboration between the Board and the management, based on clear communication. This has been reinforced by an impressive increase in the quality of documentation produced for the Board by the management, contributing to a well-functioning Board.

There were four Board meetings during the year and we were delighted to visit the Vinnytsia complex again to see progress for ourselves. There is no substitute for seeing first hand how the Company is operating on the ground.

Outlook

In 2013 we start the next exciting chapter in MHP's development as we commence production in earnest at Vinnytsia: the first step towards our goal of doubling production capacity by 2018.

Alongside this, we will be driving our exports forward, investing in the expansion of our distribution networks in key markets such as the Middle East and CIS as well as looking to penetrate EU markets on the back of the new licensing approvals.

We anticipate that high grain and oilseeds prices will sustain high chicken meat prices and whilst the threat of a devaluation of the Hryvnia remains a possibility, the Board believes that the impact of this will be short-term and mitigated by the increasing foreign currency income from poultry exports and international grain sales. Ukraine still imports 17% of its chicken so demand pressures will force a return to rising prices.

The Company has a strong balance sheet, with appropriate debt ratios, although we may take advantage of favourable financial markets to improve our debt structure. As our major capital investment programme comes to fruition, the Company will become increasingly cash generative creating a sound platform to continue its growth strategy.

What are our objectives?

Market overview

Domestic meat market production

In 2012 Ukraine supplied to the market (including import) around 2.7 million tonnes of meat, which is approximately 10% more than in 2011 due to the increased production and import of chicken and pork.

Meat in Ukraine is produced by both industrial producers and households, with the latter having accounted for 40% of all meat produced in Ukraine in 2012 (in processed weight) according to SSCU*. In 2012, the percentage of poultry industrially produced in Ukraine (82% of total domestic poultry output) was significantly higher than that of beef (25%), pork (42%) or of meat generally (58%).

Industrial production of poultry in Ukraine increased by approximately 7% in volume in 2012 as compared to 2011 and overall chicken meat production constituted around 1.1 million tonnes.

The production of pork is less industrialised than chicken and only 42% of pork in 2012 was produced industrially. In aggregate, the production resulted in 740,000 tonnes of pork, which is 5% higher than in 2011, mostly due to the slight increase in household production.

The production of beef remains much less industrialised than pork and constituted 25% in 2012. 400,000 tonnes of beef were produced in 2012, which is 3% less than in 2011. For the last 12 years production and consumption of beef has been steadily decreasing.

In 2012 MHP produced 404,000 tonnes of chicken meat, which represents 50% of industrially produced chicken meat and around 34% of total poultry consumption in Ukraine. Due to the strong price dynamics during the first nine months of 2012, the Company benefited from a 15% poultry price increase compared to 2011.

Import

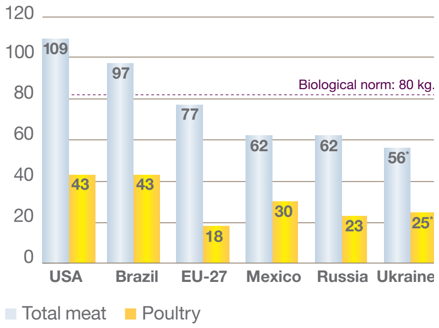
Despite the fact that Ukraine is an agricultural country, the share of imports in the total amount of meat consumption remained quite significant, mostly due to the substantial amount of chicken and pork imported during 2012. Imported poultry amounted to about 17% of total poultry consumption in Ukraine. Imported pork represented 23% of total pork consumption in Ukraine.

Imported meat is mainly presented by carcasses and other low-price parts and consumed mostly by meat processors.

According to SSCU, Ministry of Economic Development and Trade of Ukraine and MHP management's estimation of unofficial import, during 2012 Ukraine imported 203,000 tonnes of chicken meat, as compared to 165,000 tonnes in 2011. These figures include 100,000 tonnes of illegal imports of chicken products in 2011 and 85,000 tonnes in 2012 that were sold into the Ukrainian market. Imported chicken products are typically frozen and are sold to the meat processing segment.

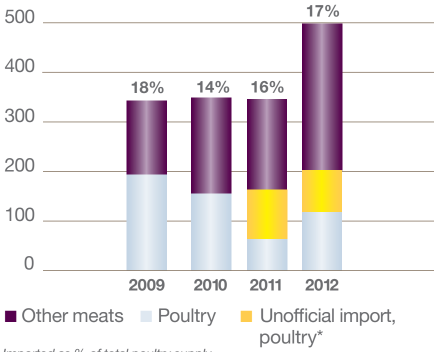
* State Statistics Committee of Ukraine.

Meat Consumption in 2012
Kg per Capita



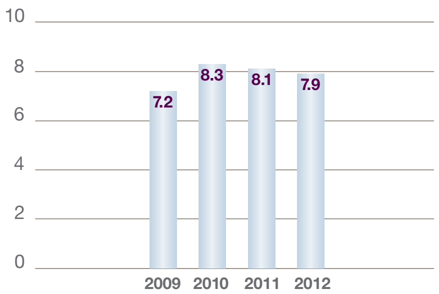
Source:
USDA, FAPRI, Committee of Statistics of Ukraine and Broker Research
** Includes unofficial imports, Company estimate*

Imported meat
'000 tonnes



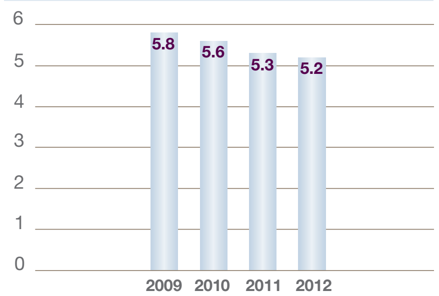
Imported as % of total poultry supply
**Ukrainian Poultry Producers Union estimates*

Pig livestock 2009–2012
Amount (million heads as of 1 July each year)



Source: SSCU

Cattle livestock 2009–2012
Amount (million heads as of 1 July each year)



Source: SSCU

Export

Ukraine continues to export meat, selling over 110,000 tonnes in 2012, which is around 50% higher than in 2011.

In 2012 the Company exported 15% of aggregated poultry sales, which is 58,000 tonnes of frozen chicken meat.

Consumption

In accordance with a market trends observed worldwide, the consumption of meat products in Ukraine has grown in line with increasing national income levels. The level of meat consumption in Ukraine currently remains below the average consumption level in developing countries and significantly below the consumption levels in the European Union countries. The level of meat consumption in Ukraine is also below the annual recommended dietary requirements, which is approximately 80 kilograms per capita per annum. According to MHP's calculations based on the data of SSCU, Ministry of Economic Development and Trade of Ukraine, in 2012, meat consumption in Ukraine was 56 kilograms of meat per capita.

Poultry meat consumption continued to demonstrate significant growth, while beef consumption was stably declining. These were a result of poultry affordability and lower production costs comparable to beef or pork. Management expects consumption levels for poultry in Ukraine to continue to grow in the short to medium term. The Company believes that this relatively high level of industrialisation of the poultry industry enables poultry producers (including MHP) to more efficiently respond to increased demand for meat products, as compared to producers of other types of meat.

According to MHP's estimations*, the aggregate consumption of poultry meat in Ukraine in 2012 was 1,188,000 tonnes. The annual per capita consumption of chicken meat in Ukraine increased by approximately 7% to 25 kilograms per capita in 2012 as compared to 24 kilograms per capita in 2011. In line with a trend also observed in other markets worldwide, Ukrainian consumers tend to eat more poultry compared to beef or pork, as poultry is cheaper than beef or pork and for health reasons.

Meat processing

Production of processed meat products in Ukraine remained relatively stable and constituted around 285,000 tonnes, which is only 2% higher than in 2011. In a highly fragmented market, MHP retained its market share of around 10% and produced 35,200 tonnes of processed meat products (See "Other agricultural operations" on page 16 for more details).

Grain market

With its vast area of fertile black soil, Ukraine produced a harvest of 46.2 million tonnes, down by almost 20% on the bumper harvest of 2011 when weather conditions produced exceptional volumes. By the end of 2012 Ukraine exported around 15 million tonnes of grains, including 7.3 million tonnes of corn, 6.0 million tonnes of wheat and 2.0 million tonnes of barley according to Ministry of Agripolitics of Ukraine. In aggregate, Ukraine is forecasted to export around 23.0 million tonnes of grains from the 2012 harvest.

In line with challenging weather conditions worldwide, MHP's harvest was also down by 6% compared to 2011 at 1.6 million but its yields remained significantly ahead of the country averages (see "Grain" on page 12 for more details). In 2012, MHP consumed over 70% of grains produced for internal needs, the rest was sold to third parties.

Looking forward

With per capita consumption of meat still below the average biological norm internationally, poultry production, being one of the main drivers of overall meat consumption growth in Ukraine, is expected to rise as investment by producers increases capacity. At the same time, granting of export licences for the EU will have a positive impact on exports. The Union of Poultry Farmers is forecasting these will rise to around 150,000 tonnes in 2013.

MHP is well placed to take advantage of the continued growth in demand for chicken meat both domestically and internationally as the new Vinnytsia plant comes on stream delivering additional production capacity, underpinned by our substantial grain growing operations.

* SSCU, Ministry of Economic Development and Trade of Ukraine and Poultry Producers Union of Ukraine.

How do we create value?

Chief Executive's Review

Yuriy Kosyuk
CEO and founder of MHP

Delivering our strategy
2012 has been a good year in the Company's history as we made significant progress in delivering our strategy objective to become the leading poultry producer in Europe, underpinned by strong financial results.

We commenced trial production at our new world class Vinnytsia poultry complex ahead of schedule and are now poised to accelerate production in 2013. This will add at least 60,000 tonnes to our capacity in the first year of industrial run of a massive expansion programme that will double our current production capacity of over 400,000 tonnes of poultry gradually by 2018.

Our exports of chicken meat grew steadily during the year, reaching roughly 15% of total poultry sales and the announcement that Ukraine is now licensed to export poultry products to the EU provides a further opportunity for export growth going forward.

Our grain growing business continues to perform robustly, reflecting strong grain prices worldwide and successful crop management that has once again delivered higher yields than Ukrainian averages. This remains an integral feature of our unique, self-sufficient business model with poultry and grain under one roof enabling us to control costs and quality for both intermediate and final products.

Business

Once again, we have delivered our key projects on time and within the budget. The most significant of these is our flagship expansion project "Vinnytsia" where we are constructing one of the most advanced chicken processing facilities in the world.

We were very happy with our progress on this project, where we were able to capitalise on our experience in building the Myronivka Poultry Farm. All production sites such as a hatchery, a slaughter house, rearing brigades etc. are now operational.

Our new Biogas plant has been launched in trial operations at the end of 2012. We plan to assess the results to date in 2013 to establish the full impact of this development before we make any decisions on future investment in alternative energy.

Overall, our poultry and related operations segment continued to grow steadily, with revenues rising to US$1,083 million, 11% ahead of last year's revenues as a result of the Vinnytsia complex launch. Due to the strong prices in H1 2012, chicken prices in 2012 increased by 15% year-on-year.

During 2012 we have been developing our export trades and exported around 58,000 tonnes of chicken meat, which is over 65% more than we did in 2011.

In 2012 chicken accounted for around 45% of all meat purchased in Ukraine and remains the most widely available and affordable meat whilst pork and beef become increasingly expensive.

Our focus on operational efficiency and using best practice techniques has contributed to strong grain yields despite unfavourable weather conditions during Ukraine's 2011/12 growing season. We gathered a pretty good harvest, however, it was a bit lower than in 2011, which partially decreased our financial result in the grain growing segment and constituted US$169 million in sales to third parties. Nevertheless, MHP's yields as usual are above the average of that in Ukraine with EBITDA of US$447 per hectare.

Capitalising on core strengths

This outstanding performance is driven by our people and our brands. We have a dedicated, stable team of professionals who understand our strategy and the steps we need to take to drive the business forward.

27,800

Employees

This has been a key factor in the successful start-up of the Vinnytsia complex. We have been able to build the senior management team from our internal resources which is testament to the Company's investment in its staff over the years, enabling us to capitalise on the skills and experience we already have.

Our senior teams are supported by 27,800 employees whose commitment and hard work ensure we can deliver our promises to our investors, our customers and our community. I would like to thank them for their continued efforts and positive approach.

We have continued to invest in our leading brand "Nasha Riaba" which has built a loyal customer base who trust and respect the quality of our products. 40% of our fresh poultry products are sold through our growing franchise network of around 2,800 branded stores, which we have been gradually increasing during 2012 and introduced a new format of a "family store".

Future

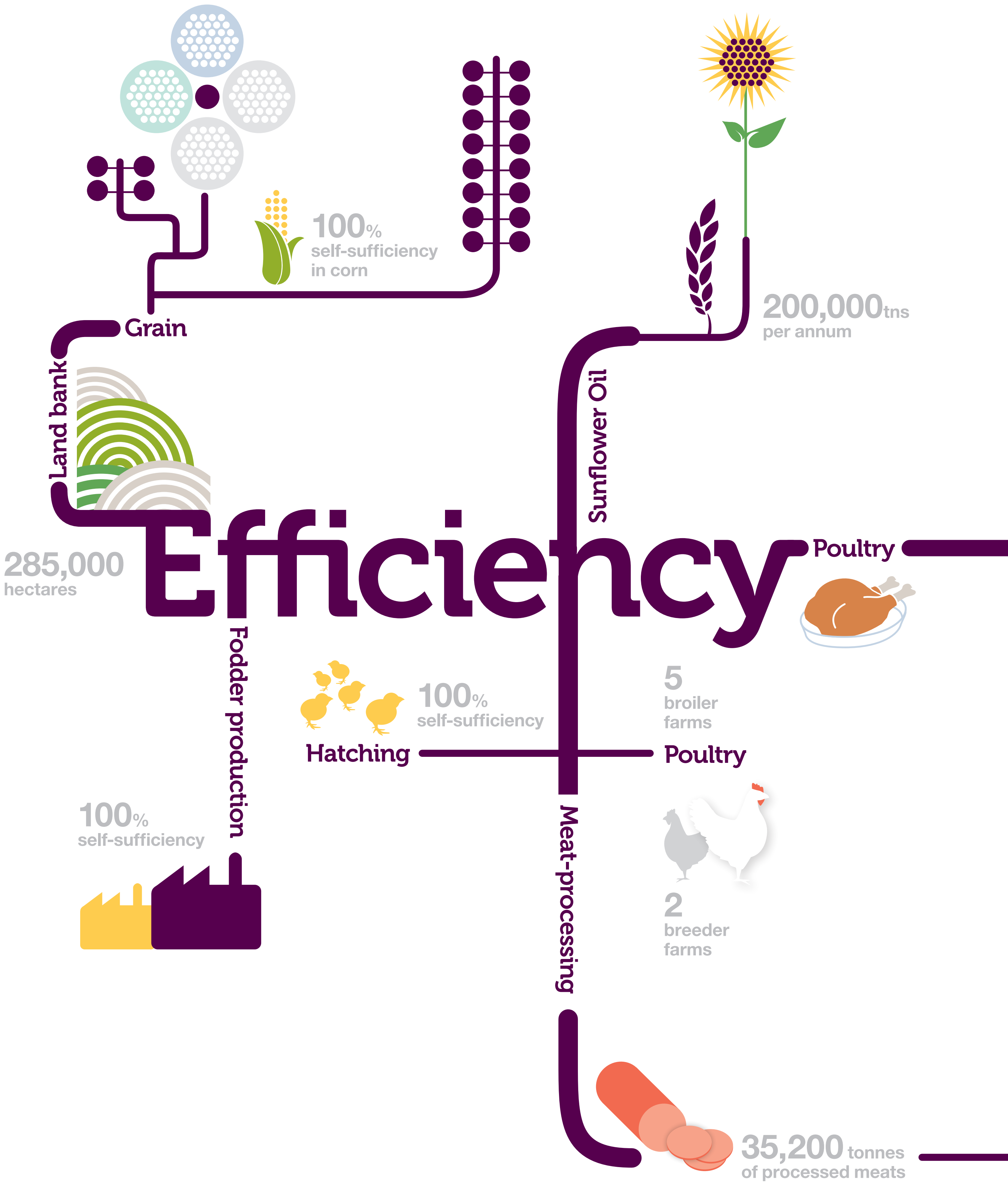
The key focus for 2013 will be to extend our production volumes at the Vinnytsia complex and recent progress gives us confidence that we will achieve our target in the financial year ahead. Combined with the opportunity to commence exports to the EU, this is the next step in transforming MHP from a leading domestic producer to a major international player.

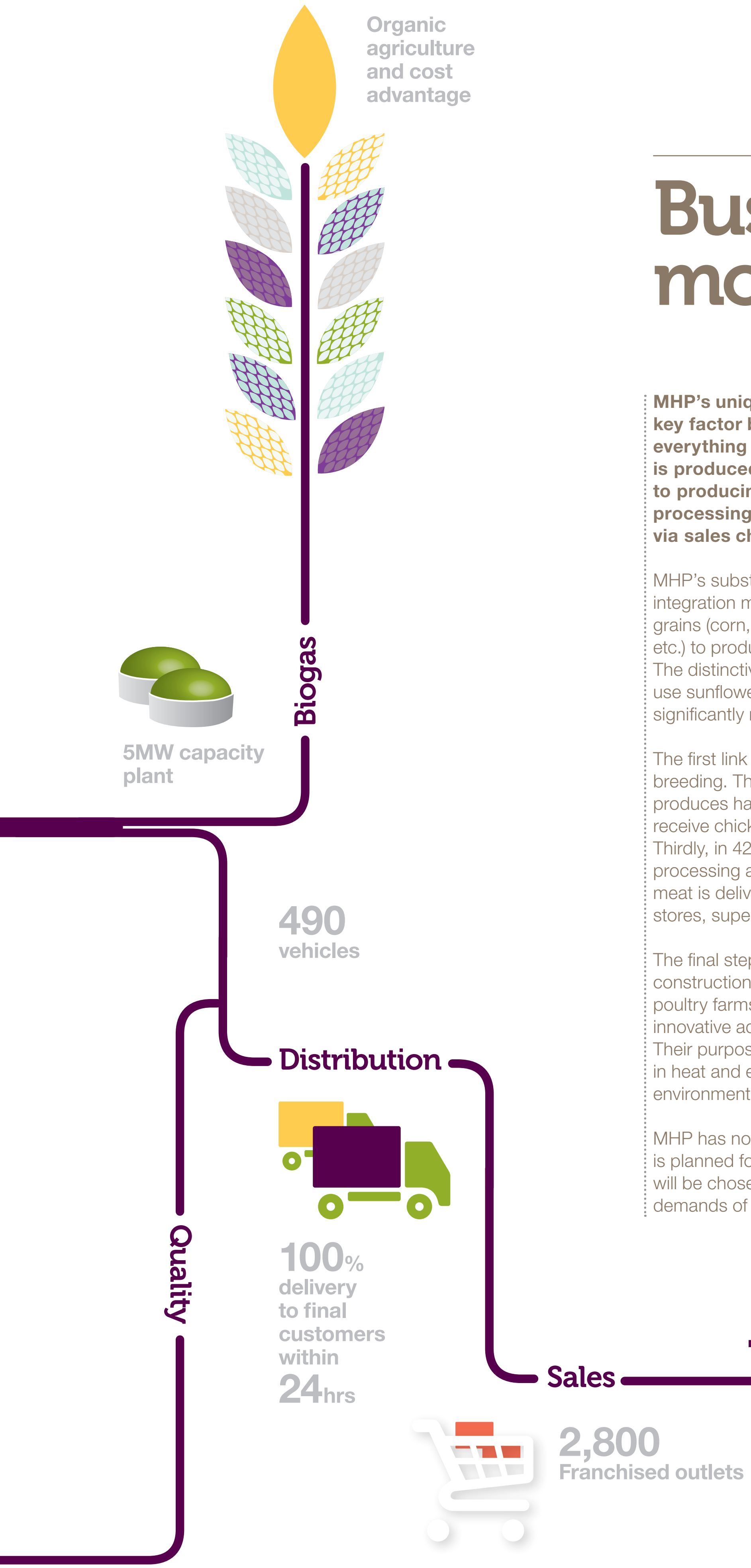
Expanding our export portfolio will help spread our risks and reduce our dependence on any one market, enabling us to mitigate any adverse impact of economic conditions globally and in Ukraine. We remain well positioned in our home market, where there is still potential for growth as consumption of meat per capita is still much less than international levels.

As the extensive capital investment programme for Phase 1 of the Vinnytsia complex nears completion, we expect cash flow to become increasingly positive for the forthcoming years.

Where will MHP be in 10 years? We have a clear, long-term vision of becoming a leading poultry producer in Europe in 10 years time and we have the people, resources and determination to achieve our long-term goals.

How do we create value?





Business model

MHP's unique vertically integrated business model is a key factor behind our stability and success. It means that everything we need for successful poultry production is produced within the Company, from cultivating crops to producing fodder right through to breeding, rearing, processing of poultry and distribution of chicken meat via sales channels.

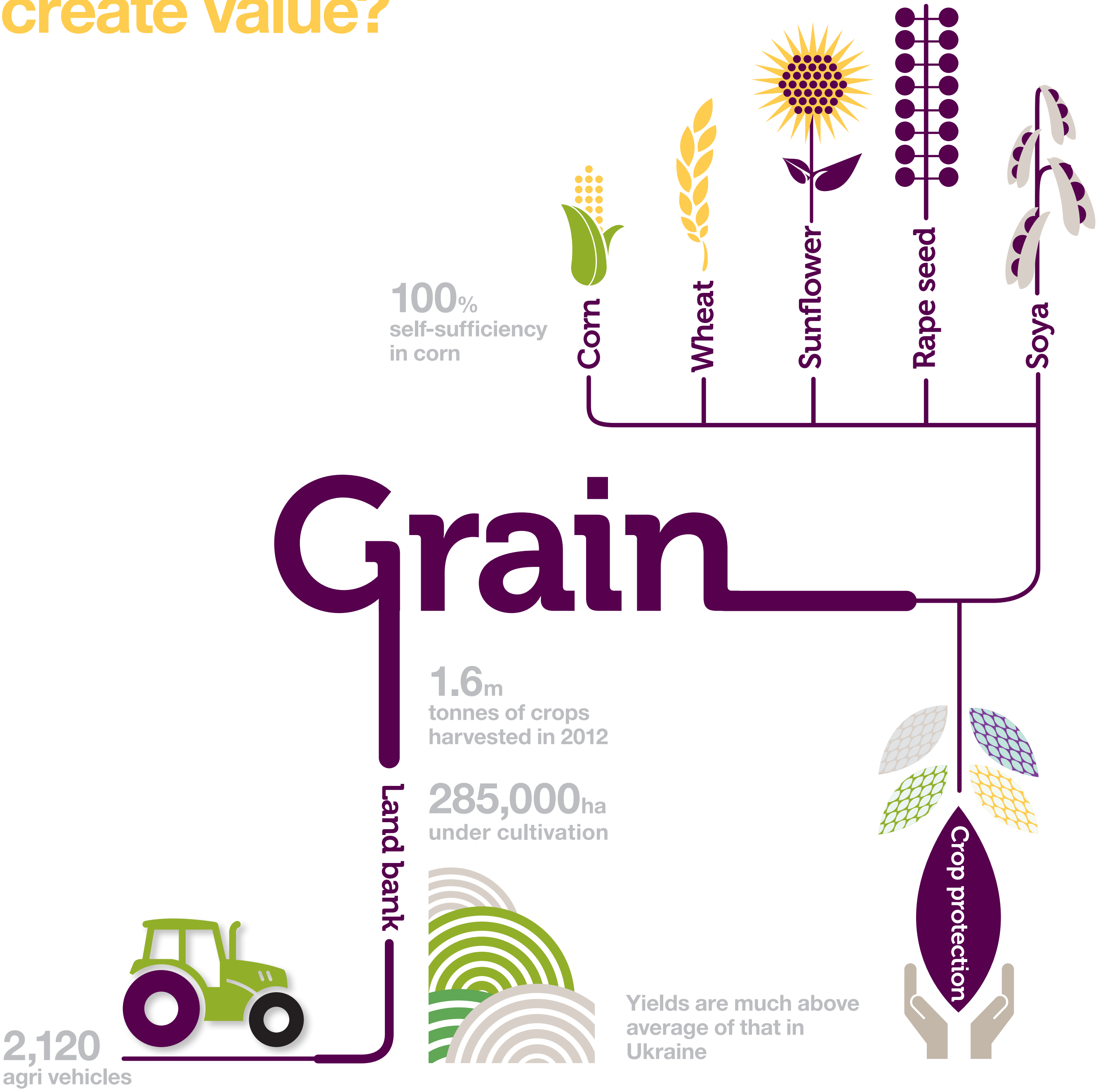
MHP's substantial land bank is the foundation for this vertical integration model (2012: over 285 thousand hectares). We grow grains (corn, wheat etc.) and oilseeds (sunflower, rapeseeds etc.) to produce the right fodder for our poultry in-house. The distinctive feature of our fodder production is that we use sunflower protein instead of imported soybeans, which significantly reduces the cost of the final product – poultry.

The first link in the value chain of the poultry division is the breeding. The parent poultry stock at MHP breeder farms produces hatching eggs. Second, at our own hatcheries we receive chicks, which are then grown at our own rearing sites. Thirdly, in 42–45 days the broiler chickens are dispatched for processing at our meat processing plants. And finally, chicken meat is delivered via our own distribution centers to franchise stores, supermarkets etc. using our own vehicles.

The final step in our vertically integrated process is the construction of biogas plants fuelled by chicken manure at our poultry farms. The best world and European technological and innovative advances have been incorporated into the project. Their purpose is to make MHP independent and self-sufficient in heat and electricity, which is a right move towards more environmentally friendly agriculture and cost advantage.

MHP has now started to work on a fertilizer enrichment plant that is planned for completion in 2013. The most efficient technology will be chosen to create organic fertilizers that will meet the demands of different markets and different crops.

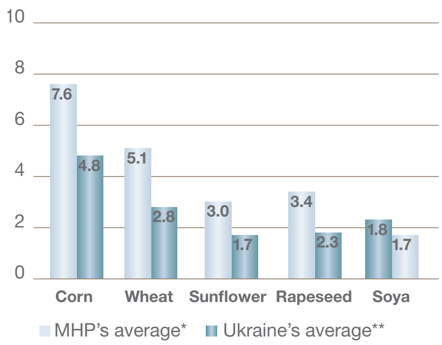
How do we create value?



Grain production
By volume %

Corn	47%
Wheat	16%
Sunflower	12%
Soyabeans	6%
Rapeseed	5%
Other	14%

2012 harvest yields
By tonnes per hectare



* Tonnes per hectare
** Source: SSCU

EBITDA
Per hectare, US$

US$447

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

Highly profitable arable farms

Grain Review
Operating one of the largest land banks in Ukraine

Land bank
During 2012 there was a marginal increase in the Company's land bank mostly due to organic growth close to our existing farms. By the end of the year, it covered just over 285 thousand hectares, in line with our strategy, as no significant land bank growth was forecasted for 2012. Approximately 255 thousand hectares of the total are used for grain growing activities and nearly 30 thousand for other agricultural activities. MHP cultivates one of the biggest land banks in Ukraine. According to "Forbes" magazine ratings, MHP's land bank is ranked fifth largest in Ukraine. This is the foundation of the Company's vertical business integration and is the key to resource independence.

2012 harvest
The harvest in 2012 delivered 1.6 million tonnes of grain crops and oilseeds. Strong results have been achieved for winter wheat, winter rapeseeds, soyabeans and sunflowers.

Despite challenging and dry weather conditions during the summer of 2012, over 883 thousand tonnes of corn were harvested from 116 thousand hectares, with an average yield of 7.6 tonnes per hectare. Nevertheless, MHP's corn yield is 60% higher than Ukraine's average.

Most crops that the Company grows, accounting for 74% of total production output, are used for feed production for internal needs. At the same time, crops that are not used for fodder are grown to enable us to operate a crop rotation system and to generate export sales in US denominated revenues. In 2012 MHP's grain export sales resulted in US$139 million from 480 thousand tonnes compared to US$63 million from 190 thousand tonnes in 2011 due to the stronger prices in 2012 and sales of crops of 2011 harvest in the first half of 2012.

Financial and operational performance
This year revenues for the grain growing segment reached US$169 million (2011: US$104 million) generating robust EBITDA of US$112 million (2011: US$121 million). This reflected challenging weather conditions for corn, mitigated by a good harvest of spring crops as well as an increase in selling prices over 2012.

Together with MHP's good harvest and yields, EBITDA per hectare remained high at US$447, which is 7% lower compared to US$482 in 2011.

The yield statistics for the crops cultivated by MHP for our own production of feeds, are as always much higher than Ukraine's averages. MHP applies the latest technologies and agricultural operating methods for soil cultivation, planting and crop protection in the harvesting process.

Maintaining our expertise
A strong management team, supported by qualified specialists, who constantly develop their own skills and knowledge, taking on board both Ukrainian and global best practices, is the cornerstone underpinning MHP's stable, high yields. All our businesses have access to a wide pool of candidates for every vacant position and employees are selected on their professional qualifications as well as their experience and achievements. We only employ people with the appropriate professional qualifications in senior positions, because a mistake in grain growing can't be corrected once the process has started.

MHP is one of the few companies in the agricultural sector that invests a great deal of human and financial resources in staff training. We train our agricultural staff, using leading industry specialists to make sure they are kept up to date with the latest issues. Experience is critical for decision-making so a young specialist needs at least 10 years to gain the necessary knowledge to become a fully fledged professional.

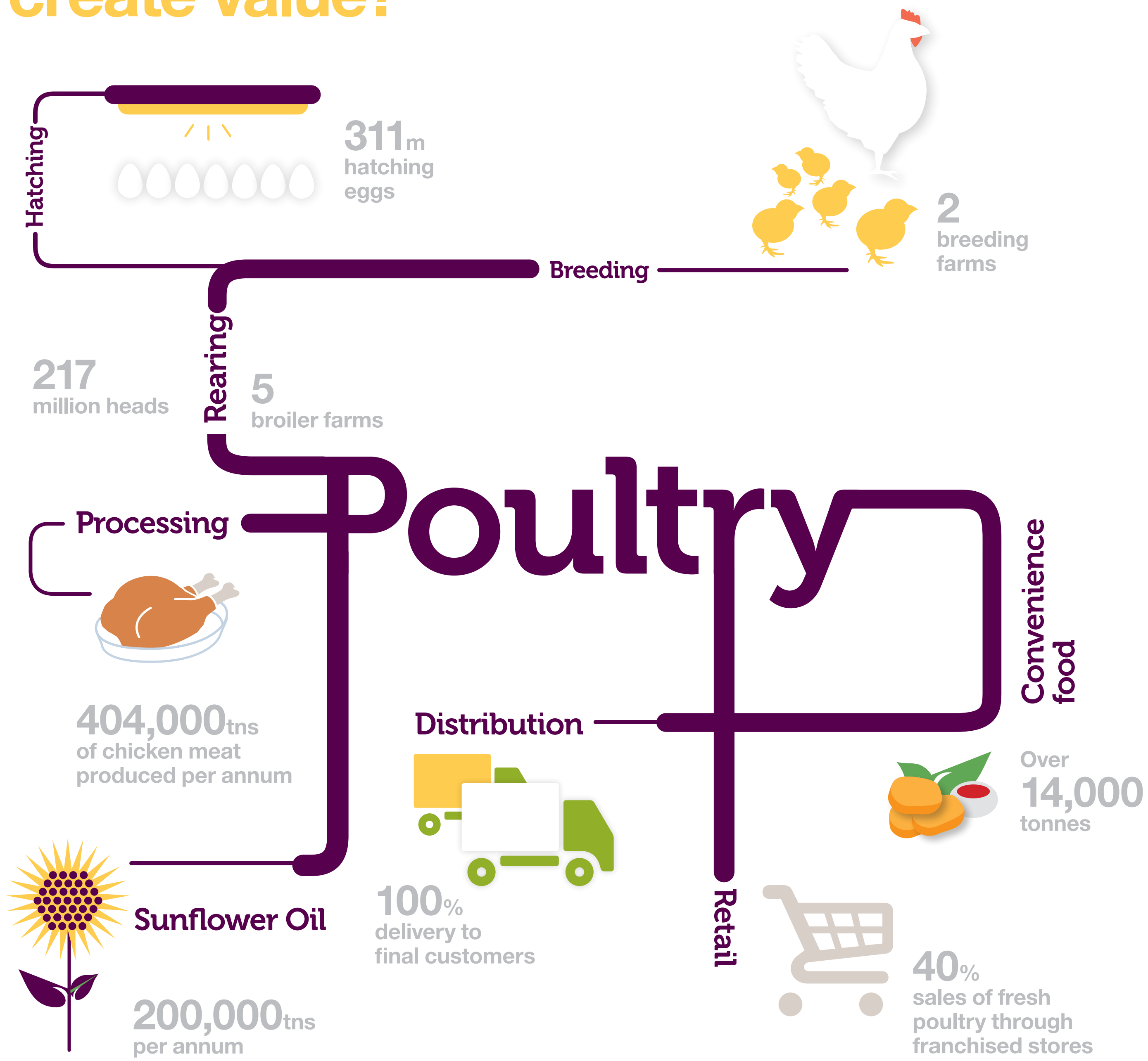
MHP's profit per hectare depends, first of all, on the professional preparation of the ground by the specialist from two to three years ahead, followed by early production planning in the autumn.

Objectives
Today we are already doing the work that will deliver results in 2014–2015 by managing resources, such as chemical and organic fertilizers, cultivation of break crops, etc. The profit per hectare today is the result of two years' work. Our specialists visit organisations abroad and share their practical experience with other specialists – farmers, scientists and commercial managers.

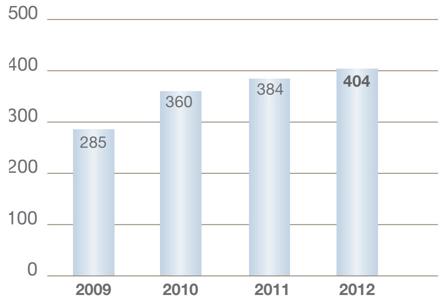
Our goal is to remain self-sufficient in the grains we need for feeds production. Our vertical integration model allows MHP to capitalise on the key advantages of having both poultry rearing and grain growing within the Company: protection from grain price fluctuations and quality control of the whole value chain.

Looking forward, the Company's land bank is expected to increase significantly to approximately 450 thousand hectares in the near future.

How do we create value?



2012 Poultry production, 2009–2012
'000 tonnes, adjusted weight

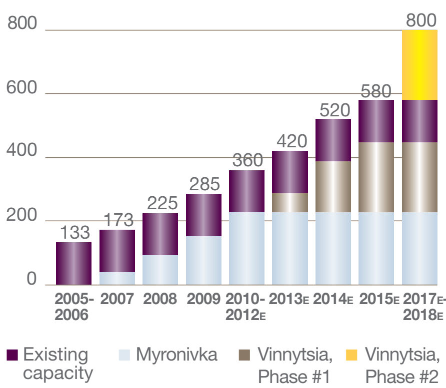


Source: SSCU

Ukraine poultry market share
By industrial production %

MHP	50%
Agromars	14%
Dniprovsky	6%
Agrooven	5%
Others	25%

Production increase schedule
'000 tonnes, adjusted weight



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

Leading the Ukrainian market

Poultry Review

50% of industrial production and 34% of domestic consumption with one of the strongest food brands "Nasha Riaba".

Performance

Poultry production is the main source of MHP's revenues contributing almost 80% of EBITDA. An increase in poultry production and rising poultry prices in Ukraine led to a 11% growth in revenue over 2012 to US$1,083 million. The initiation of pilot production at the Vinnytsia Poultry Farm began as planned in H2 2012 and was a key contributor to poultry production growth, which resulted in over 20,000 tonnes of additional produce. This growth was also driven by the optimisation of operational processes at four other MHP broiler farms.

In 2012 we produced 404 thousand tonnes of poultry, 5% higher than last year (2011: 384,000 tonnes). Exports of poultry during the year increased to 58 thousand tonnes, up by over 65% compared to the same period last year and now account for 15% of total MHP poultry sales.

MHP remains the leading supplier to the Ukrainian industrially produced poultry market with a market share of around 50%.

The Vinnytsia complex

In the summer of 2012 test production commenced successfully at the new Vinnytsia complex, as planned. Industrial production began ahead of schedule at the end of 2012 with all production sites as well as infrastructure now operational.

During 2013 we will gradually increase the capacity of the new complex and expect to add at least 60,000 tonnes to the current volumes.

By 2015, Phase 1 will become fully operational, gradually adding 220,000 tonnes to the current 404,000 tonnes capacity. Phase 2 construction will start at the beginning of 2015 and it will become operational during 2017–2018, adding a further 220 thousand tonnes.

Business model: poultry division in details

The cornerstone of MHP success is our vertically integrated business model which contributes to the total control over quality and production cost – from field to fork.

The Company's stable development is underpinned by several factors that enable us to control production costs. Firstly, growing our own grains and oilseeds and produce fodder (please see our Grain section, pages 12-13). In 2012, our total storage capacity constituted 1,230 thousand m^3. The Company produced 1,212 tonnes of fodder – 100% self-sufficiency. To have complete control of the feed for our chickens is critical for our reputation as a safe producer.

As a part of protein production, we crush sunflower seeds and produce sunflower oil. In 2012 MHP sold 195,000 tonnes of sunflower oil to world traders, which is 12% more than in 2011, due to increased fodder production for the Vinnytsia poultry farm. Production of sunflower protein (instead of soya bean protein) gives us not only cost advantage over competitors but also a useful source of foreign exchange earnings.

Secondly, there are two breeding farms, which produce hatching eggs (311 million produced, compared to 297 million in 2011) and six hatcheries. At these production stages we also control quality and biosecurity, as well as our costs. The Company is self-sufficient in hatching eggs.

Thirdly, currently we operate five broiler farms. Myronivska, and in the near future, the Vinnytsia poultry farm will be the biggest contributors to our poultry production volumes.

Finally, due to the constant innovation in all stages of the production process and constant improvement of individual processes as well as all the links in the vertical integration chain, we retain the leading position in the industry in Ukraine and are among the most efficient producers worldwide.

Quality and biosecurity

MHP's success is dependent on the high reputation of its production along with detailed quality and safety controls over all production processes. The majority of our businesses are already certified to ISO 9001 and ISO 22000 standards. Today, almost all MHP businesses have implemented food safety management systems and are certified to the requirements of the international certification scheme FSSC 22000:2010. This system was approved by the Global Food Safe Initiative "GFSI" and includes the requirements of ISO 22000:2005 and ISO/TS 22002-1:2011.

Marketing and sales

The high reputation of our main brand "Nasha Riaba" is a result of the care, attention and expertise of MHP specialists at all stages of production.

"Nasha Riaba" is the most well-known poultry brand in Ukraine and the most popular brand among consumers (according to the magazine "Focus").

Our principal brand offers consumers a wide range of packaged and unpackaged poultry. Consumers mostly buy branded products in supermarkets and branded franchise stores and these remained the main sales channels for the "Nasha Riaba" brand in 2012.

During 2012 we gradually increased our franchised network and currently have around 2,800 units operational.

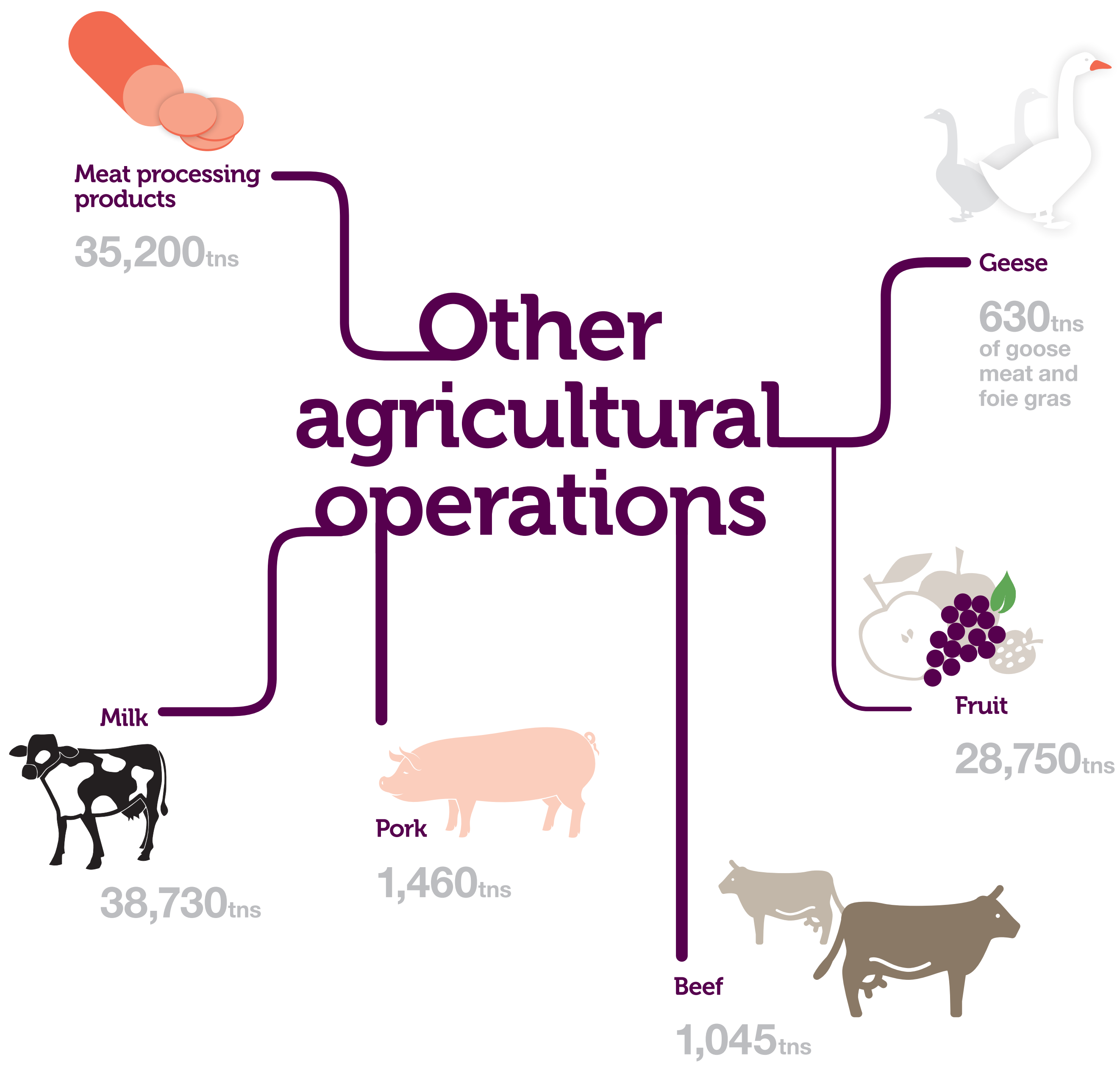
We plan to further maintain these two main sales channels and drive major increases in sales with marketing and trade marketing activities along with increased customer loyalty and distribution. This acceleration of activity is needed to prepare for the growth of poultry production over the next few years as the Vinnytsia poultry farm moves into operation.

Exports

The main export markets for our products in 2012 were CIS, Middle East, Central Asia and African countries. In line with the Company's strategy, with an overall capacity increase, we plan to gradually increase our export of poultry.

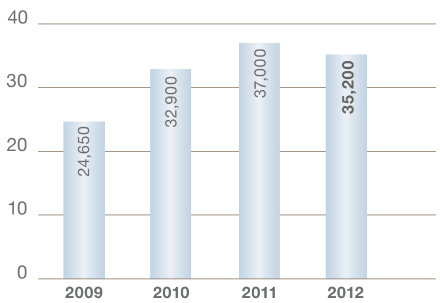
Next year MHP is expected to export at least 90,000 tonnes of poultry.

How do we create value?



Meat processing products, 2009–2012

’000 tonnes

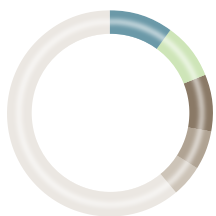


Source: MHP

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

Major Ukrainian meat processors

By % of Ukrainian market



MHP	10%
Favoryt	9%
Globynksy	9%
Yatran	6%
Gorlovsky	5%
Other	61%

Source: SSCU

Revenue increase

%, 2011-2012

6%

Meat-processing Review

As a logical step in vertical integration, 50% of raw material used for production is poultry meat.

The leader in the fragmented market

Results

MHP's meat processing plants are an integral part of the Company's vertical integration strategy. Chicken produced at the Company's poultry farms is the main ingredient used in meat processing products, such as cooked and smoked meats, sausages, convenience foods. Cattle, pigs and geese are also reared on MHP's own farms producing top quality beef, milk, pork and foie gras accordingly.

During 2012, key financials in this segment were stable compared with the last year. Revenue in this segment has increased by 6% in 2012 to US$155 million, representing 11% of the Company's gross revenues and 2% of EBITDA.

Meat processing products

MHP's meat products are leaders in the highly fragmented Ukrainian meat market with a market share of 10%. 35,200 tonnes of end products were sold during 2012, which is a 5% decrease from 37,000 tonnes compared to the previous year as we optimised the product portfolio, rationalising the number of products.

Our high value meat products are sold under three brand names: "Baschinsky", "Druzhba Narodiv", "Europroduct". We continue to develop new products in response to consumer demand in line with the results of own marketing research. All our key brands in the meat segment are produced at "Ukrainian Bacon" (Donetsk Region) and "Druzhba Narodiv" (Crimea).

Cattle and pigs

In 2012 we reared over 32 thousand heads of cattle and over 40 thousand heads of pigs using the latest technologies and methods.

Fruit

MHP owns the Crimean Fruit Company that grows apples, strawberries, pears, grapes, peaches, apricots and other fruit in the temperate climate of Southern Ukraine.

Approximately 1,500 hectares of land at Crimean Fruit facility are currently planted with orchards, with apple trees accounting for approximately 50% of the planted area. In 2012 MHP harvested over 28,750 tonnes of different fruits, which is by over 34% higher than in 2011.

The majority of the fruit producing trees were planted in 2007.

The harvest is stored in specially equipped modern chilling facilities with adjustable temperatures. The output production has an excellent reputation and meets ISO 9001:2008 and ISO 220 standards.

Foie Gras and Certified Angus

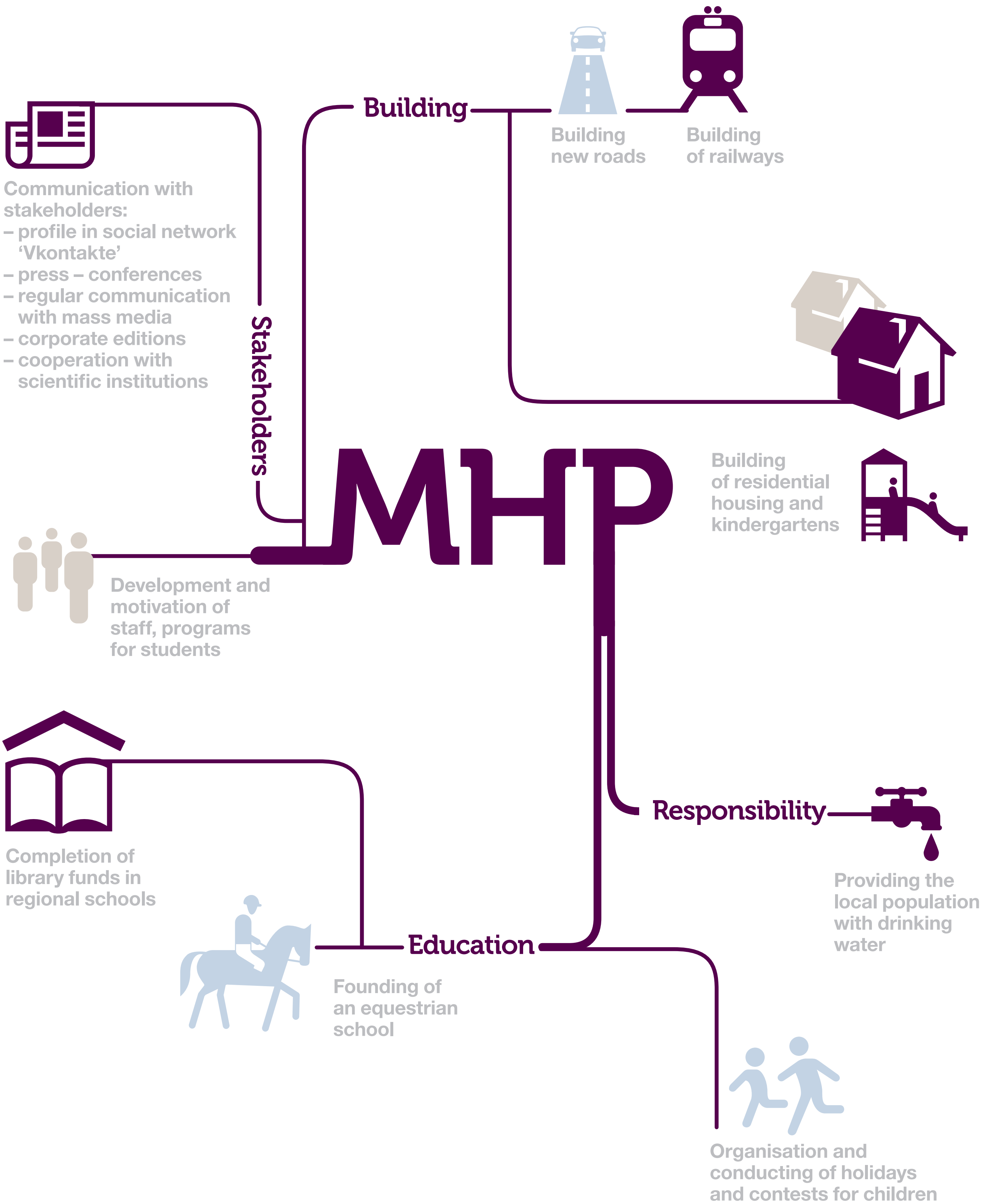
MHP is the only Ukrainian certified producer of the exclusive gourmet delicacy – foie gras and produces the exclusive Certified Angus brand – a range of top quality beef cuts from our unique herd reared on the Druzhba Narodiv farm.

Goose rearing and foie gras production are carried out on the Snyatynska poultry farm, situated in Ivano-Frankivsk region where strict quality controls are followed to meet international ISO 9001:2008 and 22000:2005 standards. In 2012 the Company produced over 100 tonnes of foie gras and over 520 tonnes of geese meat.

Our premium quality steak beef is sold under the "Certified Angus" trademark from the unique Aberdeen-Angus breed certified to the international standards of product quality and safety ISO 9001:2008 and ISO 22000:2005.

How sustainable is our business?

Communities



Values

Professionalism
About 28 thousand qualified workers and specialists provide the functioning of our enterprises, which are a total of 25 within the Company. Having deep professional knowledge, they take their duties responsibly and conscientiously, delivering tasks to the management effectively and on time.

We encourage production initiatives from people of any level of responsibility. The Company strives to achieve best results by managing people, environmental and financial resources wisely.

Responsibility
The basis of our business underlies in understanding of public needs and interests. Being responsible for our work, observing corporate rules, using resources wisely, as well as being environmently friendly, we are in charge of those who create and secure the success of our Company.

Pursuit of excellence
All our employees work in conditions that contribute to the development of their talents and abilities. Due to the advanced technologies, we improve both production and managerial processes. While working in a successful and dynamic Company, our employees are full of confidence for the future. Together we contribute to the development of Ukraine.

Openness
We create the atmosphere of trust and effective cooperation by publishing MHP's news concerning all the important issues on a regular basis. Information is available for all our employees, partners, shareholders, and all other interested parties. Our business is built on principles that are made plain for our workers and partners.

Vision

We are a dynamic and fast-growing Ukrainian company, based on the unique model of vertical integration.

Our employees have unique knowledge and experience in the industry.

Our enterprises are built and equipped with cutting edge technology.

We are leaders of the agrarian market in the poultry segment and are constantly increasing poultry production capacity in Ukraine.

The basis of our success is our workers, investment, business model, management skills and leading technologies.

Stable and sustainable

We fully recognise our social obligations to the communities in the regions where MHP businesses are located.

Our goal is to maintain high standards of corporate responsibility and best practice across all areas of our business: to contribute to our local communities, to take care of our employees and to minimise our environmental impact. Our close cooperation with the European Bank of Reconstruction and Development "EBRD" and the International Financial Corporation "IFC" also helps us to improve and enhance the level of biosecurity, quality control and stakeholder engagement.

During 2012 we continued our on-going social initiatives as well as commencing new ones. Some examples of recent initiatives in the different areas we focus on are set out below.

Communities in the regions
We take our responsibility to improve the living conditions of local communities in which we operate deeply, from building the roads to contributing to the development of cultural and sports facilities for the local population.

Site improvements
Each year, we repair roads in the regions where our sites are located, for example in 2012, we finished building a 10 km road around Ladyzhyn. An additional 8 km of railway track was also constructed and the resulting increase in freight turnover (through the shipment of products from the Vinnytsia complex) raised the status of the "Ladyzhyn" railway station.

How sustainable is our business?

5,700 people

visited our facilities in 2012

Developing cultural and sports facilities for the local population.
A new equestrian sports centre was established in Ladyzhyn, similar to the one we maintain at our Druzhba Narodiv meat processing plant in the Crimea. In addition, last year the Company sponsored childrens sailing competitions.

Stakeholder communications
During the summer of 2012 visits to facilities at the Vinnytsia poultry complex took place for the media, NGOs' representatives and residents of nearby towns and villages. In total, almost 5,700 people visited the new complex. During the visit everyone had the opportunity to talk to the Company's representatives about MHP's production processes, labour conditions and future plans in this region.

Sponsorship and social programmes
We support local schools and kindergartens with our food production, provide financial support for repair and refurbishment works and help to buy sport and technical equipment. We provide transport for children from remote villages to their schools. In September 2012 we provided significant additional resources for the libraries of five schools in Ladyzhyn in the Vinnytsia region. We also provided first-graders with tutorial materials, including school supplies and informative wall charts.

As part of International Women's Day events, we organised a charity fair to sell postcards created by Ladyzhyn pupils. The proceeds of the sales were then donated to a nominated charity.

In the Vinnytsia region MHP sponsored the organisation of several events in 2012. Besides the financial support, the Company provided free entertainment, theatre performances and sweets for the local population.

Our employees

As one of the major employers in Ukraine, we strive to create a safe working environment for our employees, contribute to their professional development and take care of their health and welfare. Our goals are to reduce occupational injuries and industrial sickness and constantly develop the workplace to increase occupational safety by improving working environments.

180 flats

to house new employees in Ladyzhyn

We also assist the employees with accommodation and with kindergartens for their children. For example, in Ladyzhyn where our new Vinnytsia complex is situated, we bought out and reconstructed two residential buildings comprising of 45 and 28 apartments. Recently the Company finished the construction of the new nine-story residential building for 180 apartments and plans to house employees and their families in May 2013, alongside the dormitory for 260 persons.

In addition, all our on-site canteens are heavily subsidised and transport is provided for employees to get to work – and for their children to get to school or kindergarten.

A special programme aimed at attracting and promoting the professional development of young people is in progress. MHP funds agricultural education for employees' children and offers summer internships to students from the best Ukrainian agricultural universities. Furthermore, the Company offers a subsidised canteen for new employees at its sites and provides them with rent-free accommodation.

A safe working environment
All MHP sites have well-developed health and safety policies, provide regular inspection of equipment and worksite safety training. Our Labour Protection department is responsible for our on-going compliance with health and safety requirements.

Well-structured remuneration and benefits
The Company has well-structured remuneration packages that include monthly and annual bonuses based on the efficiency and quality of production achieved by each separate employee, based on performance and role. The Company also provides pensions, holiday and maternity benefits in accordance with Ukrainian legislation.

Education

Every year we sponsor a number of education placements for the children of employees in 13 regions (out of 25 in Ukraine) where we operate.

We provide employment to suitably qualified, recently graduated students from leading agricultural universities in Ukraine. Many follow our "mentor-apprentice" scheme and go on to become managers in MHP after they have 3-4 years' experience in the Company. During the last few months of 2012, MHP representatives visited six out of 15 such universities. They met with students and gave them a detailed briefing on the Company's development and its main operations. They also described the student intern and new employee programmes in detail and methods of work. At these meetings, students could ask specific questions about potential employment in MHP and the current agricultural labour market. The results of these meetings, contribute to demand forecasts for young specialists in careers such as veterinarians, animal husbandry and mechanics.

Our livestock

Caring for our livestock is an essential part of our production and at the heart of how we operate. We aim to create comfortable and safe conditions for rearing as well as maintaining favourable daily habitat conditions.

In animal husbandry we focus on two main areas: first of all, we take great care when raising animals and, secondly, we minimise negative effects at slaughter.

In addition to favourable habitat conditions, we provide balanced feeding and clean, fresh water supported by high biosecurity standards, constant veterinarian control and treatment as needed.

Safe transportation and the use of calming measures before slaughtering help minimise the negative effects at slaughter where we have implemented scientifically-justified methods.

In addition, the vertical integration of MHP's business allows the Company to care for animals at every stage of their life with the best quality resources: fodder, health control, protection from hazardous environments.

To meet the highest standards of international practice, we cooperate with authoritative transnational organisations, such as EBRD and IFC. Their representatives visit our sites regularly, giving us recommendations concerning possible innovations and improvements, which we follow.

Our environment

MHP is committed to minimising the impact of its manufacturing and agricultural operations on the environment and aims to meet the highest national and international standards in this area.

US$15m

investment into Biogas Project

Energy efficiency

We are constantly looking for new ways to reduce our energy consumption. Around US$15 million has been invested in the new Biogas plant at Oril-Leader poultry farm. The plant uses chicken manure and waste from the poultry farm as a raw material to generate energy which reduces our carbon footprint and helps to reduce our cost of production. The plant became operational in autumn 2012.

Controlling emissions

MHP regularly monitors and controls all the chemicals, disinfectants, solid waste and waste water that its sites discharge in the process of their operations to avoid any negative impact on the environment. The Company pays an annual environmental tariff to the State to compensate for any pollution caused by its activity. MHP has never incurred any environmental penalties.

Minimal use of chemicals in production

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

Waste disposal

We meet the stringent requirements of the latest changes in 2010 to the Law on Waste with specially designed animal waste disposal facilities on each meat processing site.

Corporate governance

MHP is registered in Luxembourg. Its shares are listed on the London Stock Exchange. The Company complies with the Ten Principles of Corporate Governance approved by the Luxembourg Stock Exchange and voluntary corporate governance regime stated in the UK Corporate Governance Code. The Company upholds and practices the highest standards of ethics and integrity in its relationships with its shareholders, directors, personnel, business community and other third parties including government and regulatory agencies.

The main aspects of the Company's corporate governance policy are described in the Corporate Governance Charter approved by the Board of Directors in May 2012 and published on the Company's corporate website at http://www.mhp.com.ua.

Board of Directors

The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant Luxembourg laws and regulations and the articles of association of the Company. Members of the Board are elected by a majority vote of shareholders at the annual general meeting "AGM", may be elected for a six-year period and may be re-elected an unlimited number of times. Of the Board's seven directors, four are independent.

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

The Board has a Senior Independent Director. The Senior Independent Director is available to shareholders if they have any concerns that they cannot resolve through the normal channels of contact. The Senior Independent Director also provides a sounding board for the Chairman, and is responsible for the evaluation of the Chairman and serves as a trusted intermediary for Non-executive Directors as and when necessary.

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

During the year, the Board comprised:

Charles E Adriaenssen, Independent Non-executive Director, Chairman
Dr John C Rich, Independent Non-executive Director
John Grant, Non-executive Director, Senior Independent Director
Philippe Lamarche, Independent Non-executive Director
Yuriy Kosyuk, Chief Executive Officer
Yuriy Melnyk, Deputy CEO
Viktoria Kapelyushnaya, Chief Financial Officer
Yuriy Logush, Executive Director (until 27 April 2012)

On 27 April 2012 Mr Logush signed a resignation letter, which is subject to approval by the next AGM.

During 2012 the attendance by Directors of the Board's meetings was at the level of 100%.

The term of office of each member of the Board of Directors will expire at the annual general meeting stating on the annual accounts as of 31 December 2012. Each Director has signed a letter of appointment with the Company which applies for as long as he or she remains a Director. The letters do not provide for any benefits on termination of directorship and, in the case of Mr Adriaenssen, Dr Rich, Mr Grant and Mr Lamarche provide for payment of compensation and the reimbursement of certain expenses. Ms Kapelyushnaya and Mr Melnyk do not receive compensation for their service as Directors of MHP S.A. in addition to their remuneration as executive management of PJSC MHP or the relevant subsidiary.

The terms and conditions for Mr Kosyuk's appointment as Chief Executive Officer "CEO" were agreed and signed on 21 June 2006. The terms are for the duration of his office and do not provide for any benefits on termination of his directorship. Mr Kosyuk may, however, resign from his position as CEO only subject to a prior three-months' notice.

The terms contain confidentiality obligations applicable to Mr Kosyuk for a period of five years after termination of his office. The amount of remuneration and benefits paid by the Company to the persons responsible for the day-to-day management of the Company is reported by the Board of Directors to the AGM.

The amount of remuneration and benefits of all members of the Board of Directors, including the Chief Executive Officer, regardless of whether such remuneration is paid by the Company or by any other entity within the Group, is established by the Nominations and Remuneration Committee. In addition, the amount of remuneration paid to Non-executive Directors is approved by the AGM.

Nominations and Remuneration Committee

Charles E Adriaenssen, Chairman
John Grant
Dr John C Rich

The Committee's main tasks are:

- To recommend to the Board the appointment or renewal of Directors, to review remuneration and monitor performance of the Board, and to make recommendations to the Board in respect of the necessary skills and experience required to improve the functioning of the Board.
- To monitor the performance of key officers of the Company and evaluate results versus stated objectives, to monitor training needs and programmes to improve employee effectiveness, to ensure the Company develops successors for all key positions.

- To oversee the development and approval by the Board of the Company's overall compensation policy including its long-term incentive plans, to ensure that top managers are incentivised to achieve and are compensated for exceptional performance, to oversee the maintenance and continuous improvement of the Company's compensation policy with a view to aligning the interests of employees with the interests of shareholders.
- To submit for approval to the Board the compensation packages of the CEO and of the Executive Management.
- To approve all external hiring of key officers.

During 2012, the committee held two meetings, and all of the committee members attended.

Audit Committee

John Grant, Chairman
Dr John C Rich
Philippe Lamarche

The Committee's main tasks are:

- To review and monitor the integrity of the Company's financial statements, announcements of results and any other formal announcement relating to its financial performance, significant financial reporting issues and judgements and to make recommendations to the Board with respect to the financial statements.
- To keep under review and report to the Board on the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, management and reporting of risks.
- To review the Company's policies and procedures for the identification, management and reporting of non-financial risks, to review reports on the risk management process and to report to the Board on the effectiveness of the risk assurance process.
- To monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.
- To approve appointment, reappointment, compensation and oversight of the Company's external auditors.
- To assist the Board in overseeing compliance with all legal and regulatory requirements.

During 2012, the Committee held four meetings, and the average attendance of the Committee members was at the level of 85%.

Remuneration of auditors

Remuneration of auditors amounted to US$0.7 million, US$0.8 million, US$1.0 million in 2012, 2011 and 2010 respectively.

Auditor's remuneration is mainly attributable to the audit services and services provided in respect to bonds issued in 2010 but also includes tax consulting fees of around US$0.1 million per year.

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

Internal control/risk management

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

Financial reporting process

MHP has in place a comprehensive financial review cycle, which includes a detailed annual budgeting process. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board of Directors. Major commercial and financial risks are assessed as part of the business planning process. There is a comprehensive system of financial reporting, with monthly performance reports presented to the Board of Directors.

At the Group level, MHP has in place common accounting policies and procedures on financial reporting and closing. Management monitors the publication of the new reporting standards and works closely with the external auditors in evaluating in advance the potential impact of these standards.

Compensation of key management personnel

Total compensation of the Group's executive management, which consists of contractual salary and performance bonuses, amounted to US$11,686 thousand, US$8,741 thousand and US$15,514 thousand in 2012, 2011 and 2010, respectively. Total compensation of the Group's Non-executive Directors, which consists of contractual salary, amounted to US$407 thousand, US$380 thousand and US$353 thousand in 2012, 2011 and 2010, respectively.

Litigation statement on the directors and officers

At the date of this annual report, no member of the Board of Directors or of MHP's senior management had, for at least five years:

1. any convictions relating to fraudulent offences;
2. been a senior manager or a member of the administrative or supervisory bodies of any company at the time of, or preceding, any bankruptcy, receivership or liquidation; or
3. been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor had ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company, or from acting in the management or conduct of the affairs of a company.

Share options

At the date of this annual report, neither the Company nor PJSC MHP has a share option plan and no share options have been granted to members of the Board of Directors, members of MHP's senior management or employees.

Additional disclosures

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

How do we conduct our business?

Risk management

Some of the risks the Group faces are common to all commercial operations, some are inherent in farming in general and chicken farming in particular. The principal risks the Group faces are macroeconomic, financial and operational. MHP has effective policies in place to manage and, where possible, to avoid these risks.

Operational risks	Fluctuations in demand and market prices.	Avian flu and other livestock diseases.	Fluctuations in grain prices.	Increased cost for, or disruptions in, gas and fuel supplies.	Weather.
Potential impact	A drop in demand.	In recent years, avian flu has affected wild birds and poultry flocks in a number of countries. It was first discovered in Ukraine in December 2005 and was still present in the Crimea and Sumy regions in 2008.	World prices could affect our poultry production costs.	Gas and fuel, used for production and distribution, are imported. Uncertainty in supply and fluctuating prices could affect production and costs.	Inclement weather could affect crop yield.
Mitigation	Falls in demand can generally be overcome with modest price reductions. Per capita consumption of meat is still low in comparison with other European countries and we believe demand for chicken will continue to increase. Beef and pork are mostly produced by householders and are far more expensive to produce and purchase than chicken, kg for kg.	We operate strict biosecurity measures, including disinfectant washes, culling wild birds in the immediate vicinity of our farms.	We grow 100% of the corn we need for feed and replace expensive protein from imported soya beans with that from sunflower seeds. We also grow around 16% of the sunflowers we need and buy the rest from domestic growers. Chicken always benefits from this when compared to other kinds of meat such as pork and beef because of the lower conversion rate (amount of grain required to produce 1kg of meat).	Gas and fuel represent only about 9% of our overall costs. We are increasing our use of co-generation and alternative energy technology. When we process sunflower seeds we are left with a huge amount of husks; we burn some to generate steam heat for our processing plant; a proportion is converted into briquettes for generating energy and these are exported.	Ukraine's weather is generally temperate, with plenty of sunshine in summer and adequate rainfall; this combines with extremely fertile earth to create excellent growing conditions. In addition, our management of our land and the use of modern technology enable us to achieve a yield which is significantly higher than the average for Ukraine.

Financial risks	Credit risk.	Liquidity risk.	Currency exchange risk.	Interest rate risk.
Potential impact	Debtors fail to make scheduled payments.	Lack of funds to make payments due.	Exposure to fluctuation in exchange rates. Inability to repay US dollar debt.	Changes in interest rates affecting the cost of borrowings, the value of our financial instruments, and our profit and loss and shareholders' equity.
Mitigation	No single customer represents more than 7% of total sales. The amount of credit allowed to one customer or group of customers is strictly controlled. Credit to major groups of customers, including supermarkets and franchises, is restricted to between five and 21 days.	MHP has a detailed budgeting and cash forecasting process to ensure that adequate funds are available. Our target is to maintain our current ratio, defined as the proportion of current assets to current liabilities, no less than 1.1–1.2.	We do not use derivatives, which are neither available nor routinely used in Ukraine, to manage our exposure. We earn around 34% of our total revenue in US dollars through the sale of sunflower oil, sunflower husk, grain and meat. This represents a hedge against exchange risk and very nearly services our dollar-denominated loans. In addition, our strategy of growing the majority of our own ingredients for feed, rather than relying on imports, helps to reduce our exposure.	While MHP borrows on both fixed and variable rates, the majority of our debt is at fixed rates. For variable rate borrowings, interest is linked to LIBOR and EURIBOR and they are generally at lower interest rates than are available in Ukraine.

How do we conduct our business?

Board of Directors

Charles E Adriaenssen
age 56

Non-Executive Chairman of the Board and of the Nominations and Remuneration Committee

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

Dr John C Rich
age 60

Non-Executive Director

Dr Rich joined the Board in 2006. He is the regional consulting senior agribusiness industry specialist for the International Finance Corporation (Eastern Europe, Russia, Ukraine, Central Asia, Middle East, North and West Africa) and a director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC) In addition, he is a senior Board consultant for a number of agribusiness companies worldwide including IFC invested clients. From 1990 to 2003, he was the founding shareholder and executive director of Austasia Pty Ltd, an agri-business conglomerate which has operations in Australia, South East Asia and China, and from 1995 to 2002 was a director of AN-OSI Pty Ltd, a company that specialised in supply-chain management for feedlot beef, poultry and dairy operations in Asia and Europe. Dr Rich holds a BSc and a BVSc from the University of Sydney, is a member of the Australian College of Veterinary Scientists and a registered member of the Royal College of Veterinary Scientists with post graduate experience in the food and finance industry.

John Grant
age 67

Non-Executive Director
Chairman of the Audit Committee

Mr Grant is a non-executive director of Melrose plc, Pace plc and Wolfson Microelectronics plc. He was previously Chairman of Gas Turbine Efficiency plc , Torotrak plc and a number of private companies, and a non-executive director of National Grid plc and Corac Group plc. In his executive career, he was Chief Executive of Ascot plc from 1997 to 2000, prior to which he was Finance Director of Lucas Industries plc and Director of Corporate Strategy for Ford Motor Company. Mr Grant holds a BSc in economics from Queen's University, Belfast, and an MBA from Cranfield School of Management.

Philippe Lamarche
age 48

Non-Executive Director

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

Yuriy Kosyuk
age 44

Chief Executive Officer

Mr Kosyuk founded MHP in 1998 and is also the CEO of JSC MHP. In 1995 he founded the Business Centre for the Food Industry "BCFI" and was President until 1999. BCFI operated in the domestic and export markets for grain and other agricultural products. Mr Kosyuk graduated as a processing engineer in meat and milk production from the Kyiv Food Industry Institute in 1992.

Yuriy Melnyk
age 50

Deputy CEO

In July 2010 Yuriy Melnyk was appointed First Deputy CEO of Myronivsky Hliboproduct ("MHP"). Prior to joining MHP Yuriy held the position of Agricultural Minister for Ukraine and Deputy Prime Minister of Ukraine, as well as serving as an advisor to the Prime Minister of Ukraine. Yuriy is a Doctor of Agriculture and has been a correspondent member of National Academy of Sciences of Ukraine from 2002. In 2004 he was awarded the State Prize of Ukraine in science and technology. He graduated from the Ukrainian agriculture academy as a Zooengineer in 1985.

Viktoria Kapelyushnaya
age 43

Chief Financial Officer

Ms Kapelyushnaya is a Financial Director of JSC MHP, joined MHP in 1998 and was elected to the Board in 2006. She was previously Deputy Chief Accountant, then Chief Accountant, of BCFI. She holds diplomas in meat processing engineering (1992), and financial auditing (1998), from the Kyiv Institute of Food Industry.

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2012.

Principal activities and review of the business

MHP is one of the leading Agro-industrial companies, and the largest producer of chicken, in Ukraine. The business, run on a vertically-integrated principle with the objective of making it self-sufficient, is structured into three segments: Poultry and related operations, Grain growing operations, and Other agricultural operations.

Poultry segment

This division produces and sells chicken products, sunflower oil, mixed fodder and convenience foods. It incorporates five chicken and two breeder farms, feed mills, and convenience foods facilities.

Grain segment

This division grows crops for fodder, and for sale to third parties, on 285,000 hectares of land. It incorporates a number of arable farms and grain storage facilities.

Other agricultural operations segment

This division produces and sells sausages and cooked meat, beef, goose and foie gras, and fruits. It incorporates one mixed farm, a goose farm and two facilities for producing prepared meat products. More information about the operations of the business is set out in the Chairman's Statement on page 04, the Chief Executive Officer's review on pages 08-09, and the Business review on pages 10-17.

Future developments

The group's strategy is:

- to expand its capacity to produce chicken and chicken products in a domestic market which has a 46 million population and one of the world's lowest rates of meat consumption per capita;
- to expand its grain production to around 500,000 hectares by 2015 and to provide stability in the ingredients for fodder;
- to increase the efficiency of its grain production through modernisation and use of up-to-date technology;
- to reduce costs and improve quality control by increasing vertical integration;
- to maintain, and improve, its high biosecurity standards;
- to promote and develop its strong brands through consumer-driven innovation;
- to increase its presence in value-added food products, such as processed meat and convenience food; and
- to continue to develop its distribution network and customer base.

The management believes there is ample opportunities for growth as customers choose to buy domestically-produced chicken, which is cheaper and fresher than imported meat.

Going concern

After reviewing the 2013 budget and longer-term plans, the Directors are satisfied that, at the time of the approval of the financial statements, it was appropriate to adopt the going concern basis in preparing the financial statements of the Group.

Directors during the year

The following served as directors of the Company during the year ended 31 December 2012:

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

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

Yuriy Melnyk
Deputy CEO

Yuriy Logush
Director (until 27 April 2012)

Dr John C Rich
Independent Non-executive Director

John Grant
Non-executive Director, Senior Independent Director

Philippe Lamarche
Independent Non-executive Director

The Directors' biographies are on pages 26-27 of this report.

Election and re-election of directors

Details of the procedure for election and re-election of directors is in the Corporate governance report on page 22 of this report.

Annual General Meeting "AGM"

The AGM will be held at the Company's registered office in Luxembourg at 12 noon on 29 April 2013.

Disclosure of information to auditors

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

How have we performed?

Financial review

MHP is one of Ukraine's leading agro-industrial companies, focused on producing chicken and chicken products, processed meat products and the cultivation of grain. As the leading poultry producer in Ukraine, according to the State Statistics Committee of Ukraine "SSCU", MHP accounted for approximately 50% of all industrially produced chicken in Ukraine and 35% of all poultry consumed in 2012.

We also have one of the country's largest banks of agricultural land. At the end of 2012 MHP had about 285,000 hectares of land under its control.

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

Operations

Our operations are structured into three segments: Poultry and related operations, Grain growing operations and Other agricultural operations.

Poultry and related operations

This segment produces and sells chicken and chicken products, sunflower oil, convenience food, mixed fodder and other products related to the poultry production process. In 2012 it accounted for 76.9% of total sales (2011: 79.6%) and 80.5% of total EBITDA (2011: 72.4%).

Grain growing operations

This segment produces grain used as fodder for our own operations; a proportion is also sold to third parties. In 2012 grain sold to third parties constituted 12.0% of MHP's total revenue (2011: 8.4%) and 23.9% of total EBITDA (2011: 30.1%).

Other agricultural operations segment

Other agricultural operations segment produces and sells sausages and cooked meat, as well as goose, foie gras, milk and other agricultural products. The segment was responsible for 11.0% of 2012 total sales (2011: 11.9%) and 2.1% of total EBITDA (2011: 4.1%).

Results

	2012 US$000	2011 US$000	Change %
Revenue	**1,407,522**	1,229,090	15%
Net change in fair value of bio-assets and agricultural produce	**16,734**	21,288	(21%)
Cost of sales	**(1,001,909)**	(889,127)	13%
Gross profit	**422,347**	361,251	17%
Gross margin, %	**30%**	29%	1%
Selling, general and administrative expenses	**(120,485)**	(106,447)	13%
Government grants recognised as income	**102,369**	87,985	16%
Other operating expenses and income, net	**(23,648)**	(22,045)	7%
Operating profit before loss on impairment of property, plant and equipment	**380,583**	320,744	19%
Depreciation	**87,135**	80,341	8%
EBITDA	**467,718**	401,085	17%
EBITDA margin, %	**33%**	33%	–
Operating profit	**380,583**	320,744	19%
Finance costs, net	**(59,311)**	(65,918)	(10%)
Finance income	**3,350**	6,356	(47%)
Foreign exchange gains/(losses)	**(3,285)**	2,318	(242%)
Other expenses and income, net	**(2,633)**	(1,385)	90%
Profit before tax	**318,704**	262,115	22%
Income tax expense	**(7,788)**	(2,760)	182%
Net income	**310,916**	259,355	20%
Net margin, %	**22%**	21%	1%

All the key financial indicators during 2012 increased year-on-year in both local currency (Hryvnia – UAH) and US dollars, while margins remained almost the same.

In 2012, MHP's consolidated revenue from continuing operations in UAH increased by 15% to UAH 11,248 million (2011: UAH 9,793 million) as a result of higher prices of poultry in H1 2012 compared to H1 2011 and higher volumes of externally sold grain. In US dollars the revenue increased by 15% to US$1,407.5 million (2011: US$1,229.1 million).

Gross profit from continuing operations increased by 17% in both UAH and US dollars. Gross profit was UAH 3,375 million or US$422.3 in 2012 against UAH 2,878 million or US$361.3 million in 2011. Gross margin increased from 29% in 2011 to 30% in 2012.

EBITDA in local currency increased by 17% to UAH 3,738 million (2011: UAH 3,196 million) and to US$467.7 million, also 17% higher than 2011 (2011: US$401.1 million), mostly due to increased poultry prices. EBITDA margin remained stable at 33%.

EBITDA

"EBITDA" is generally defined as profit / (loss) for the period before income tax expense, finance costs, finance income, depreciation and amortisation expense. In our definition of EBITDA, we further exclude foreign exchange (loss)/gain, net, and other expenses, net.

How have we performed?

Financial review continued

Net income for the year from continuing operations in UAH increased by 20% to UAH 2,485 million (2011: of UAH 2,066 million). In US dollars it increased by 20% from US$ 259.4 million in 2011 to US$310.9 million in 2012, mostly in line with EBITDA growth and due to an increase in depreciation related to the Vinnytsia project start-up. Net income margin increased from 21% to 22%.

Income statement by segments in 2012

	Poultry US$000	Grain US$000	Other agricultural US$000	Unallocated US$000	Total US$000
Revenue					
Total revenue	**1,125,897**	**316,861**	**160,476**	**–**	**1,603,234**
Inter-segment eliminations	(42,919)	(147,719)	(5,074)	–	(195,712)
Sales to external customers	**1,082,978**	**169,142**	**155,402**	**–**	**1,407,522**
Net change in fair value of biological assets and agricultural produce	11,955	4,329	450	–	16,734
Gross Profit*	**342,837**	**72,618**	**6,892**	**–**	**422,347**
Selling, general and administrative expenses	(87,936)	–	(9,482)	(23,067)	(120,485)
Government grants, recognised as income	75,119	20,657	6,593	–	102,369
Other operating income/expenses	(11,483)	(1,136)	(509)	(10,520)	(23,648)
Segment result/operating profit	**318,537**	**92,139**	**3,494**	**(33,587)**	**380,583**
EBITDA	376,459	111,708	10,016	(30,465)	467,718
Finance cost					(59,311)
Finance income					3,350
Foreign exchange gains					(3,285)
Other expenses, net					(2,633)
Profit before tax					**318,704**
Income tax expense					(7,788)
Net profit from continuing operations					**310,916**

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

General tax system – tax legislation changes

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

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

State support for agricultural production in Ukraine

In view of the agricultural sector's importance to the national economy, as well as the need to improve living conditions in rural areas, support for the sector is a major priority for the Ukrainian government. During 2012 State support was provided in the form of special tax regimes (VAT and Corporate Income Tax).

The majority of Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Tax Code and are exempt from Corporate Income Tax and other taxes such as Land Tax, Municipal Tax, Natural Resources Usage Duty, Geological Survey Duty, and Trade Patent. This tax regime is valid indefinitely. According to the Tax Code, the special VAT regime for the agricultural industry will be effective through to 1 January 2018.

Foreign currency exchange rates and functional currency

MHP's operating assets are located in Ukraine and its revenues and costs are principally denominated in Hryvnas. About 34% of the Company's revenue and almost all financial costs are denominated in foreign currencies, primarily US dollars. Management believes that MHP's exposure to currency exchange rate fluctuations as a result of foreign currency costs is completely hedged by its US dollar revenue earned from the export of sunflower oil, sunflower husks, poultry and grain. In 2012 the Company generated US$480 million of revenue in foreign currencies, up by 36% compared with the US$354 million generated in 2011 due to increases in grain and poultry export sales.

Export revenues, 2011-2012, US$000

	2012	2011
Sunflower oil and related products	**227,835**	222,418
Grains	**138,639**	63,101
Chicken meat	**112,931**	67,874
Other agricultural segment products	**431**	486
Total export revenue	**479,836**	353,879

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

	As of 31 December 2012	Average for 2012	As of 31 December 2011	Average for 2011	As of 31 December 2010	Average for 2010
UAH/US$	**7.9930**	**7.9910**	7.9898	7.9677	7.9617	7.9353
UAH/EUR	**10.5372**	**10.2692**	10.2981	11.0926	10.5731	10.5313

Poultry and related operations

	2012 US$000	2011 US$000	Growth rate %
Revenue	**1,082,978**	978,871	11%
– Chicken meat and other	**866,544**	762,841	14%
– Sunflower oil	**216,434**	216,030	–
IAS 41 standard gains	**11,955**	2,665	349%
Gross profit	**342,836**	260,779	31%
Gross margin	**32%**	27%	5%
EBITDA	**376,459**	290,481	30%
EBITDA margin	**35%**	30%	5%
EBITDA per 1kg of chicken meat	**1.00**	0.78	28%

MHP's revenue from its Poultry and related operations segment is principally generated from sales of chicken and, to a lesser extent, of sunflower oil (a by-product of its sunflower protein production), mixed fodder and convenience food.

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

In 2012 poultry production volumes increased by 5% to 404,000 tonnes of poultry (2011: 384,000 tonnes). The growth of volumes produced was mostly due to the new Vinnytsia poultry complex commencing operations.

Consumer demand for poultry remained high in 2012, and all MHP's poultry production units continued to operate at 100% capacity utilisation. In addition, the Company produced around 20,000 tonnes of poultry at the Vinnytsia poultry complex.

In 2012 MHP poultry sales volumes to third parties remained relatively stable at 375,300 tonnes compared to 370,900 tonnes in 2011. About 15% of total poultry sales by volume were exported. The major markets for the Group's export sales of chicken meat are Kazakhstan and Russia as well as to lower extent other Commonwealth of Independent States "CIS" countries, Middle East and Central Asia.

The average sales price of poultry increased by 15% to UAH 17.19 per kg in 2012 compared to UAH 15.00 per kg in 2011 as a result of strong poultry prices in H1 2012 and a low price base in H1 2011.

MHP produces sunflower oil as a by-product of using sunflower seeds in the manufacture of chicken feed. Almost 100% of the sunflower oil produced is exported. In 2012 195,000 tonnes of sunflower oil were produced and sold for export, which is 12% more than in 2011, due to the launch of sunflower meal production at the Vinnytsia complex in H2 2012, the purchase of additional sunflower meal at attractive prices on the market and a reduction of sunflower oil production in 2011. Average prices of sunflower oil decreased by 11% from US$1,109 per tonne compared to US$1,245 per tonne in 2011 in line with world market trends.

In 2012 the Poultry and related operations segment generated strong financial results driven mostly by growth in the sales price of poultry. The segment's revenue amounted to US$1,083.0 million, 11% more than the previous year (2011: US$978.9 million).

Poultry production costs in 2012 increased by approximately 7% compared to 2011 mainly due to higher utilities prices and start-up expenses related to the launch of operations at our new Vinnytsia poultry complex. The Poultry segment's cost of raw materials and other inventory is primarily based on feed grain and other items associated with producing fodder, as well as those associated with producing hatching eggs. Most of the feed grain used in poultry production, such as corn, and partially sunflower seeds, is produced by the Company's grain growing division. Management believes that the prices at which products are sold between divisions are generally consistent with average market prices and therefore comply with Ukrainian transfer pricing rules.

The gross profit of the poultry segment was US$342.8 million in 2012, 31% higher than last year (2011: US$260.8 million), gross profit margin rose from 27% in 2011 to 32% in 2012 due to higher poultry prices.

EBITDA for the poultry segment increased by 30% to US$376.5 million in 2012 (2011: US$290.5 million) in line with gross profit growth. EBITDA margin increased to 35% in 2012 compared to 30% in 2011.

How have we performed?

Financial review continued

Grain growing

	2012 US$000	2011 US$000	Growth rate %
Revenue	**169,142**	103,739	63%
IAS 41 standard gains	**4,329**	17,322	(75%)
Gross profit	**72,618**	85,934	(15%)
EBITDA	**111,708**	120,708	(7%)
EBITDA per 1 hectare	**447**	482	(7%)

In 2012, the grain growing division harvested 250,000 hectares of crops, in line with 2011 volumes and cultivated around 30,000 hectares of land in other agricultural operations. At the end of 2012 the Company's total land bank amounted to 285,000 hectares reflecting growth of approximately 5,000 hectares during 2012 (2011: 280,000 hectares). Due to challenging weather conditions the MHP 2012 harvest decreased to 1.6 million tonnes of grain and oilseeds compared to 1.7 million tonnes in 2011.

MHP's grain yields were significantly higher than Ukraine's average yields in 2012 as a result of the Company's operational efficiency and employment of best practice. MHP's corn yield decreased to 7.6 tonnes per hectare in 2012 compared to 9.5 tonnes per hectare in 2011, while the yields of other grain and oilseeds in 2012 were the same or even higher than yields in 2011.

MHP uses the majority of the grain it produces in its own operations, with the balance sold to third parties. These sales generate the revenue of the grain growing segment. Revenue increased by 63% to US$169.1 million in 2012 compared to US$103.7 million in 2011. This was due to higher grain prices and external sale of a large volume of excess crops during 9M 2012 including crops from the excellent 2011 harvest held in storage amounting to US$78 million.

EBITDA per hectare (ha) decreased by 7% from US$482 per ha in 2011 to US$447 per ha in 2012 due to the challenging weather conditions, in particular, for corn.

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

Other agricultural operations

	2012 US$000	2011 US$00	Growth rate %
Revenue	**155,402**	146,480	6%
– Meat processing	**102,959**	99,740	3%
– Other	**52,443**	46,740	12%
IAS 41 standard gains	**450**	1,301	(65%)
Gross profit	**6,892**	14,538	(53%)
Gross margin	**4%**	10%	(6%)
EBITDA	**10,016**	16,393	(39%)
EBITDA margin	**6%**	11%	(5%)

Other agricultural segment is mostly represented by meat processing activity. The contribution from this segment into total Company's financial results is not significant, which is historically less than 5% of total EBITDA.

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

Revenue of the segment increased by 6% to US$155.4 million in 2012 compared to 2011, mostly due to higher prices for meat processing products.

MHP's sausage and cooked meat volumes decreased by 5% to 35,200 tonnes in 2012 compared to 37,000 tonnes in 2011. Stable demand for meat processing products had a positive impact on sales prices during 2012. Average sausage and cooked meat prices rose by 11% to UAH 22.20 per kg in 2012. MHP is a market leader in meat processing in Ukraine and its market share remained around 10%.

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

The financial performance of other agricultural operations segment slowed down in 2012 compared to 2011 mainly as a result of losses in goose business and negative trends in fruits harvest related to challenging weather conditions. The gross profit of the segment decreased by 53% to US$6.9 million in 2012 compared to US$14.5 million in 2011. EBITDA decreased to US$10.0 million in 2012 in line with the decline in gross profit. EBITDA margin decreased from 11% in 2011 to 6% in 2012.

Liquidity and capital resources

MHP's cash flow from operating activities principally resulted from operating profit adjusted for non-cash items, such as depreciation, and for changes in working capital. Cash flow from operations before working capital changes increased by 19% to US$383.7 million for the year 2012 (2011: US$322.8 million) in line with higher EBITDA.

In 2012 the increase in working capital amounted to US$185.6 million. The main contributors to working capital were:

- Increase in VAT recoverable related to the intensive CAPEX program (US$92.9 million);
- Increase in inventories due to increased sunflower stocks (US$75.5 million);
- Increase in biological assets related to the start of production at Vinnytsia Complex (US$12.1 million).

Total CAPEX was US$385.9 million in 2012, mostly related to the Vinnytsia project. Since the start of construction in May 2010, approximately US$636 million has been invested in the project as of the end of 2012.

During 2012 MHP repurchased 3,445,000 of its outstanding ordinary shares for a total cash consideration of US$41.5 million under the share buy-back programme.

Cash flows

	2012 US$000	2011 US$000
Operating activities		
Operating profit before movements in working capital changes	**383,721**	322,809
Change in working capital	**(185,597)**	(125,148)
Net cash generated from operating activities	**198,134**	197,661
Investing activities		
CAPEX	**(385,897)**	(333,182)
Including non-cash investments	**123,703**	85,902
Deposits	**1,788**	126,143
Net cash used in investing activities	**(260,406)**	(121,137)
Financing activities		
Net cash generated from financing activities	**62,279**	(21,114)
Including treasury shares acquisition	**(41,465)**	–
Net increase in cash and cash equivalents	**7**	55,410
Effects of exchange rates	**20**	27
Total change in cash	**27**	55,437

Debt

	31.12.2012	31.12.2011
Total Debt US$, m	**1,140**	898
Long term debt	**817**	708
Short term debt	**323**	190
Cash and bank deposits	**(95)**	(97)
Net Debt	**1,045**	801
LTM EBITDA	**468**	401
Debt/LTM EBITDA	**2.44**	2.24
Net Debt/LTM EBITDA	**2.23**	2.00

As of December 31, 2012, MHP's total debt was US$1,140.1 million, most of which was denominated in US dollars. The average weighted cost of debt was below 8%. 50% of MHP's total debt is the Eurobond, which matures in April 2015.

US$176.9 million of our long-term debt is principally represented by loans, covered by ECA; it matures at various dates up to 2018. US$95.0 million of our debt is accounted for by IFC and EBRD three year loans for financing the Company's working capital needs. US$67.0 million represents financing for the lease of agricultural machinery and equipment used in our grain growing activities and for vehicles for distribution, maturing at various dates up to 2015.

As of the end of 2012, MHP had US$94.8 million in cash and short term bank deposits. Net Debt increased to US$1,045.3 million as of December 31, 2012 compared to US$801.8 million as of December 31, 2011. The Net Debt/EBITDA ratio at the end of the period was 2.23 (Eurobond covenant: 2.5).

As a hedge for currency risks, revenues from the export of sunflower oil, sunflower husks and poultry are denominated in US Dollars, fully covering debt service expenses.

Financial review continued

Outlook

Consumer demand for poultry meat in Ukraine remains high.

Operations at the Vinnytsia complex will gradually increase during 2013-2015. With a significant increase in production volume of poultry, our sales both domestically and worldwide will grow.

Following the Company's strategy and objectives, MHP will continue to develop export markets in CIS, Asia, Africa and, in the near future, in European Union.

In line with the Company strategy, MHP is going to gradually increase its land bank operations in the near future.

The Vinnytsia complex CAPEX programme is almost complete and therefore in 2013 it will be significantly lower than in 2011-2012 and mostly related to the construction of additional rearing sites. As our major capital investment programme comes to fruition, the Company will become increasingly cash generative creating a sound platform to continue its growth strategy.

Our efforts in the short-term will be focused on increasing the share of value added products in our product mix.

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

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

For the year ended 31 December 2012

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of MHP S.A. and its subsidiaries (the "Group") as of 31 December 2012 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

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

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

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

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

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 4 March 2013.

Board of Directors' responsibility statement

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

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

How have we performed?

Independent Auditor's report

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

Report on the consolidated financial statements
Following our appointment by the General Meeting of the Shareholders dated 27 April 2012, we have audited the accompanying consolidated financial statements of MHP S.A., which comprise the consolidated statement of financial position as of 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and the related notes to the consolidated financial statements.

Responsibility of the Board of Directors' for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the réviseur d'entreprises agréé's 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 réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MHP S.A. and its subsidiaries as of 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements
The directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended with respect to the corporate governance statement.

For Deloitte Audit
société à responsabilité limitée
Cabinet de révision agréé

Sophie Mitchell,
Réviseur d'enterprises agréé
Partner

4 March 2013
560, rue de Neudorf
L-2220 Luxembourg

Consolidated statement of comprehensive income

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

	Notes	2012	2011	2010
Revenue	6	**1,407,522**	1,229,090	944,206
Net change in fair value of biological assets and agricultural produce		**16,734**	21,288	29,014
Cost of sales	7	**(1,001,909)**	(889,127)	(680,637)
Gross profit		**422,347**	361,251	292,583
Selling, general and administrative expenses	8	**(120,485)**	(106,447)	(102,107)
VAT refunds and other government grants income	9	**102,369**	87,985	82,058
Other operating expenses, net		**(23,648)**	(22,045)	(15,750)
Operating profit		**380,583**	320,744	256,784
Finance income		**3,350**	6,356	13,309
Finance costs	10	**(59,311)**	(65,918)	(62,944)
Foreign exchange (loss)/gain, net		**(3,285)**	2,318	10,965
Other expenses, net		**(2,633)**	(1,385)	(793)
Other expenses, net		**(61,879)**	(58,629)	(39,463)
Profit before tax		**318,704**	262,115	217,321
Income tax expense	11	**(7,788)**	(2,760)	(1,873)
Profit for the year		**310,916**	259,355	215,448
Other comprehensive income/(loss)				
Effect of revaluation of property, plant and equipment	12	**5,166**	–	–
Deferred tax charged directly to revaluation reserve		**(826)**	–	–
Cumulative translation difference		**(436)**	(3,040)	770
Other comprehensive income/(loss) for the year		**3,904**	(3,040)	770
Total comprehensive income for the year		**314,820**	256,315	216,218
Profit attributable to:				
Equity holders of the Parent		**297,104**	243,376	205,395
Non-controlling interests		**13,812**	15,979	10,053
		310,916	259,355	215,448
Total comprehensive income attributable to:				
Equity holders of the Parent		**300,756**	240,336	206,165
Non-controlling interests		**14,064**	15,979	10,053
		314,820	256,315	216,218
Earnings per share				
Basic and diluted earnings per share (USD per share)	33	**2.80**	2.26	1.88

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

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

How have we performed? continued

Consolidated statement of financial position

as of 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

	Notes	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Non-current assets				
Property, plant and equipment	12	**1,339,687**	1,008,923	744,965
Land lease rights	13	**26,694**	27,227	23,216
Deferred tax assets	11	**8,231**	7,795	5,190
Long-term VAT recoverable, net	14	**35,784**	24,850	24,017
Non-current biological assets	15	**53,695**	46,327	43,288
Long-term bank deposits		**6,154**	6,017	–
Other non-current assets		**16,615**	14,476	14,251
		1,486,860	1,135,615	854,927
Current assets				
Inventories	16	**274,255**	182,240	132,591
Biological assets	15	**159,276**	135,990	116,310
Agricultural produce	17	**166,128**	169,022	113,850
Other current assets, net		**33,880**	21,989	21,331
Taxes recoverable and prepaid, net	18	**200,308**	137,175	107,824
Trade accounts receivable, net	19	**72,616**	65,794	53,395
Short-term bank deposits	20	**–**	1,777	134,460
Cash and cash equivalents	21	**94,785**	94,758	39,321
		1,001,248	808,745	719,082
TOTAL ASSETS		**2,488,108**	1,944,360	1,574,009
EQUITY AND LIABILITIES				
Equity				
Share capital	22	**284,505**	284,505	284,505
Treasury shares	22	**(65,393)**	(40,555)	(40,555)
Additional paid-in capital		**181,982**	179,565	179,565
Revaluation reserve		**22,869**	18,781	18,781
Retained earnings		**976,919**	679,815	436,439
Translation reserve		**(241,227)**	(240,791)	(237,751)
Equity attributable to equity holders of the Parent		**1,159,655**	881,320	640,984
Non-controlling interests		**39,008**	44,489	29,384
Total equity		**1,198,663**	925,809	670,368
Non-current liabilities				
Bank borrowings	23	**199,483**	109,108	58,426
Bonds issued	24	**571,515**	567,000	562,886
Finance lease obligations	25	**45,955**	32,558	37,389
Deferred tax liabilities	11	**3,345**	2,207	2,502
		820,298	710,873	661,203
Current liabilities				
Trade accounts payable	26	**68,970**	52,689	19,012
Other current liabilities	27	**62,902**	53,269	38,042
Bank borrowings	23	**301,658**	170,380	140,092
Bonds issued	24	**–**	–	9,892
Accrued interest	23, 24	**14,125**	12,073	11,573
Finance lease obligations	25	**21,492**	19,267	23,827
		469,147	307,678	242,438
TOTAL LIABILITIES		**1,289,445**	1,018,551	903,641
TOTAL EQUITY AND LIABILITIES		**2,488,108**	1,944,360	1,574,009

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

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

Consolidated statement of changes in equity

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the Parent								
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2010	284,505	–	178,815	18,781	231,044	(238,521)	474,624	19,784	494,408
Profit for the year	–	–	–	–	205,395	–	205,395	10,053	215,448
Other comprehensive income	–	–	–	–	–	770	770	–	770
Total comprehensive income for the year	–	–	–	–	205,395	770	206,165	10,053	216,218
Acquisition of treasury shares (Note 22)	–	(46,288)	–	–	–	–	(46,288)	–	(46,288)
Treasury shares disposed of under a compensation scheme (Note 22)	–	5,733	750	–	–	–	6,483	–	6,483
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(453)	(453)
Balance at 31 December 2010	284,505	(40,555)	179,565	18,781	436,439	(237,751)	640,984	29,384	670,368
Profit for the year	–	–	–	–	243,376	–	243,376	15,979	259,355
Other comprehensive loss	–	–	–	–	–	(3,040)	(3,040)	–	(3,040)
Total comprehensive income for the year	–	–	–	–	243,376	(3,040)	240,336	15,979	256,315
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(601)	(601)
Acquisition and changes in non-controlling interests in subsidiaries	–	–	–	–	–	–	–	(273)	(273)
Balance at 31 December 2011	284,505	(40,555)	179,565	18,781	679,815	(240,791)	881,320	44,489	925,809
Profit for the year	–	–	–	–	297,104	–	297,104	13,812	310,916
Other comprehensive income	–	–	–	4,088	–	(436)	3,652	252	3,904
Total comprehensive income for the year	–	–	–	4,088	297,104	(436)	300,756	14,064	314,820
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(501)	(501)
Acquisition of treasury shares (Note 22)	–	(41,465)	–	–	–	–	(41,465)	–	(41,465)
Acquisition and changes in non-controlling interests in subsidiaries (Note 2, 22)	–	16,627	2,417	–	–	–	19,044	(19,044)	–
Balance at 31 December 2012	**284,505**	**(65,393)**	**181,982**	**22,869**	**976,919**	**(241,227)**	**1,159,655**	**39,008**	**1,198,663**

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

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

How have we performed? continued

Consolidated statements of cash flows

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

	Notes	2012	2011	2010
Operating activities				
Profit before tax		**318,704**	262,115	217,321
Non-cash adjustments to reconcile profit before tax to net cash flows				
Depreciation and amortization expense	5	**87,135**	80,341	67,902
Net change in fair value of biological assets and agricultural produce	5	**(16,734)**	(21,288)	(29,014)
Change in allowance for irrecoverable amounts and direct write-offs		**25,605**	18,888	8,264
Loss on disposal of property, plant and equipment and other non-current assets		**199**	551	1,931
Bonus to key management personnel settled in treasury shares	28	**–**	–	6,483
Finance income		**(3,350)**	(6,356)	(13,309)
Finance costs	10	**59,311**	65,918	62,944
Non-operating foreign exchange loss/(gain), net		**3,257**	(2,519)	(10,965)
Operating cash flows before movements in working capital		**474,127**	397,650	311,557
Working capital adjustments				
Change in inventories		**(75,508)**	(29,033)	(23,962)
Change in biological assets		**(12,059)**	(13,011)	(4,868)
Change in agricultural produce		**2,276**	(43,290)	(21,768)
Change in other current assets		**(13,245)**	(886)	(5,130)
Change in taxes recoverable and prepaid		**(92,911)**	(47,103)	(47,919)
Change in trade accounts receivable		**(7,638)**	(12,666)	(10,744)
Change in other liabilities		**13,615**	7,491	256
Change in trade accounts payable		**(127)**	13,350	(52,516)
Cash generated by operations		**288,530**	272,502	144,906
Interest received		**3,350**	6,645	12,924
Interest paid		**(81,508)**	(77,239)	(58,134)
Income taxes paid		**(12,238)**	(4,247)	(3,116)
Net cash flows from operating activities		**198,134**	197,661	96,580
Investing activities				
Purchases of property, plant and equipment		**(257,667)**	(234,895)	(139,157)
Acquisition of land lease rights		**(1,314)**	(5,424)	(4,767)
Purchases of other non-current assets		**(3,629)**	(4,093)	(2,883)
Proceeds from disposals of property, plant and equipment		**1,746**	369	703
Purchases of non-current biological assets		**(1,408)**	(2,139)	(3,610)
Acquisition of subsidiaries, net of cash acquired	2	**–**	–	(38,659)
Financing provided in relation to acquisition of subsidiaries		**–**	–	(13,408)
Investments in long-term deposits		**–**	(6,017)	–
Investments in short-term deposits		**(4)**	(52,259)	(164,662)
Withdrawals of short-term deposits		**1,792**	184,419	37,608
Loans repaid by/(provided to) employees, net		**78**	(1,098)	(993)
Loans repaid by related parties, net		**–**	–	100
Net cash flows used in investing activities		**(260,406)**	(121,137)	(329,728)

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

Consolidated statements of cash flows continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

	Notes	2012	2011	2010
Financing activities				
Proceeds from bank borrowings		**223,179**	158,071	565,134
Repayment of bank borrowings		**(96,666)**	(142,867)	(560,309)
Proceeds from bonds issued	24	**–**	–	323,018
Repayment of bonds		**–**	(9,976)	–
Repayment of finance lease obligations		**(22,268)**	(25,740)	(24,532)
Repayment of other financing		**–**	–	(6,420)
Dividends paid by subsidiaries to non-controlling shareholders		**(501)**	(602)	(453)
Acquisition of treasury shares	22	**(41,465)**	–	(46,288)
Net cash flows from/(used in) financing activities		**62,279**	(21,114)	250,150
Net increase in cash and cash equivalents		**7**	55,410	17,002
Net foreign exchange difference		**20**	27	71
Cash and cash equivalents at 1 January		**94,758**	39,321	22,248
Cash and cash equivalents at 31 December		**94,785**	94,758	39,321
Non-cash transactions				
Additions of property, plant and equipment under finance leases		**30,370**	13,895	16,365
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor		**93,333**	72,007	3,970
Revaluation of grain storage facilities	12	**5,166**	–	–

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

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

Notes to the consolidated financial statements

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

1. Corporate information

MHP S.A. (the "Parent" or "MHP S.A."), a limited liability company (société anonyme) registered under the laws of Luxembourg, was formed on 30 May 2006. MHP S.A. was formed to serve as the ultimate holding company of PJSC "Myronivsky Hliboproduct" ("MHP") and its subsidiaries. Hereinafter, MHP S.A. and its subsidiaries are referred to as the "MHP S.A. Group" or the "Group". The registered address of MHP S.A. is 5, rue Guillaume Kroll, L-1882 Luxembourg.

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

The principal business activities of the Group are poultry and related operations, grain growing, as well as other agricultural operations (meat processing, cultivation and selling fruits and producing beef and meat products ready for consumption). The Group's poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age ("grow-out"), processing and marketing of branded chilled products and include the production and sale of chicken products, sunflower oil, mixed fodder and convenience food products. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, beef, milk, goose meat, foie gras, fruits and feed grains. During the year ended 31 December 2012 the Group employed about 27,800 people (2011: 24,800 people, 2010: 22,000 people).

The Group has been undertaking a large-scale investment program to expand its poultry and related operations, and in May 2010 the Group commenced construction of the greenfield Vinnytsia poultry complex. During the second half of 2012 the Group started commissioning production facilities at Vinnytsia complex, which were already completed. Since the end of 2012 respective production facilities have been being launched into operations reaching a full production capacity in forthcoming years (Note 12). The facilities of Vinnytsia complex remaining under construction as of 31 December 2012 will be commissioned during 2013 and 2014, as scheduled.

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 13).

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent's effective ownership interest as of 31 December 2012, 2011 and 2010 were as follows:

Name	Country of registration	Year established/ acquired	Principal activities	2012	2011	2010
Raftan Holding Limited	Cyprus	2006	Sub-holding Company	**100.0%**	100.0%	100.0%
MHP	Ukraine	1998	Management, marketing and sales	**99.9%**	99.9%	99.9%
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv	Ukraine	1998	Fodder and sunflower oil production	**88.5%**	88.5%	88.5%
Vinnytska Ptahofabryka	Ukraine	2011	Chicken farm	**99.9%**	99.9%	–
Peremoga Nova	Ukraine	1999	Chicken farm	**99.9%**	99.9%	99.9%
Druzhba Narodiv Nova	Ukraine	2002	Chicken farm	**99.9%**	99.9%	99.9%
Oril-Leader	Ukraine	2003	Chicken farm	**99.9%**	99.9%	99.9%
Tavriysky Kombikormovy Zavod	Ukraine	2004	Fodder production	**99.9%**	99.9%	99.9%
Ptahofabryka Shahtarska Nova	Ukraine	2003	Breeder farm	**99.9%**	99.9%	99.9%
Myronivska Ptahofabryka	Ukraine	2004	Chicken farm	**99.9%**	99.9%	99.9%
Starynska Ptahofabryka	Ukraine	2003	Breeder farm	**94.9%**	94.9%	94.9%
Ptahofabryka Snyatynska Nova	Ukraine	2005	Geese breeder farm	**99.9%**	99.9%	99.9%
Zernoproduct	Ukraine	2005	Grain cultivation	**89.9%**	89.9%	89.9%
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage, sunflower oil production	**99.9%**	99.9%	99.9%
Druzhba Narodiv	Ukraine	2006	Cattle breeding, plant cultivation	**99.9%**	99.9%	99.9%
Crimean Fruit Company	Ukraine	2006	Fruits and grain cultivation	**81.9%**	81.9%	81.9%
NPF Urozhay	Ukraine	2006	Grain cultivation	**99.9%**	89.9%	89.9%
Agrofort	Ukraine	2006	Grain cultivation	**86.1%**	86.1%	86.1%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	**99.9%**	99.9%	99.9%
Ukrainian Bacon	Ukraine	2008	Meat processing	**79.9%**	79.9%	79.9%

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

2. Changes in the group structure

Detailed below is the information on incorporations and acquisitions of subsidiaries, as well as changes in non-controlling interests in subsidiaries of the Group during the years ended 31 December 2012, 2011 and 2010.

Incorporations

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

Acquisitions

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

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

	2010
Property, plant and equipment	16,463
Land lease rights	18,801
Non-current biological assets	3,482
Agricultural produce	5,274
Biological assets	5,827
Inventories	1,076
Taxes recoverable and prepaid, net	1,086
Trade accounts receivable, net	113
Cash and cash equivalents	54
Total assets	52,176
Accounts payable to the Group	(13,408)
Trade accounts payable	(1,656)
Other current liabilities	(981)
Total liabilities	(16,045)
Net assets acquired	36,131
Fair value of the consideration transferred	(38,943)
Goodwill	2,812
Cash consideration paid	(38,713)
Cash acquired	54
Net cash outflow arising on the acquisition	(38,659)

Goodwill arising on the acquisitions of these subsidiaries is attributable to the benefits of expected synergies and future development of the grain growing activities. Had the transactions related to acquisitions as discussed above, occurred on 1 January 2010, "Pro forma" revenue and profit for the year ended 31 December 2010 would have been USD 957,497 thousand and USD 217,734 thousand, respectively. "Pro forma" earnings per share would have been USD 1.9 per share.

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

2. Changes in the group structure continued

Changes in non-controlling interests in subsidiaries

In December 2012 the Group increased its effective ownership interest in NPF Urozhay to 99.9% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 1,257,032 treasury shares held by the Group. The transaction was recognised within the equity (Note 22).

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

3. Summary of significant accounting policies

Basis of presentation and accounting

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

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

Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

- IFRS 1 (Revised 2008) "First-time Adoption of International financial Reporting Standards". Amendments to severe hyperinflation. Effective 1 July 2011;
- IFRS 1 (Revised 2008) "First-time Adoption of International financial Reporting Standards". Amendments to removal of fixed dates of first-time adopters. Effective 1 July 2011;
- IFRS 7 "Financial instruments: Disclosures". Amendments to transfers of financial assets. Effective 1 July 2011;
- IAS 12 "Income taxes". Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets. Effective 1 January 2012;

IFRS 1 (Revised 2008) "First-time Adoption of International financial Reporting Standards" (Amendments)

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.

The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 "Financial instruments: Disclosures" (Amendment)

The amendments to IFRS 7 increase the disclosure requirement for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 12 "Income taxes" (Amendment)

Amendments to IAS 12 "Income Taxes" provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will, normally, be through sale.

As a result of the amendments, SIC-21 "Income Taxes — Recovery of Revalued Non-Depreciable Assets" would no longer apply to investment property carried at fair value. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model as described in IAS 40 "Investment Property". The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

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

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 1 "Presentation of Financial Statements" – To revise the way other comprehensive income is presented	1 July 2012
IAS 27 "Separate Financial Statements" (revised 2011)	1 January 2014
IAS 28 "Investments in Associates and Joint Ventures" (revised 2011)	1 January 2014
IFRS 10 "Consolidated Financial Statements"	1 January 2014
IFRS 11 "Joint Arrangements"	1 January 2014
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2014
IFRS 13 "Fair Value Measurement"	1 January 2013
IFRIC 20 "Stripping costs in the production phase of a surface mine"	1 January 2013
Amendments to IAS 19 "Employee benefits" – Post employment benefits and termination benefits projects	1 January 2013
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Accounting for government loan below-market rate when transitioning to IFRS	1 January 2013
Amendments to IFRS 7 "Financial instruments: Disclosures" – Offsetting of financial assets and financial liabilities	1 January 2013
Amendments to IAS 32 "Financial instruments: Presentation" – Application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS 9[1]	1 January 2015
IFRS 9 "Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition"[1]	1 January 2015

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

Management is currently evaluating the impact of the adoption of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement", and amendment to IFRS 7 "Financial instruments: Disclosures". For other Standards and Interpretations management anticipates that their adoption in future periods will not have material effect on the financial statements of the Group in future periods.

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

These consolidated financial statements are presented in US Dollars ("USD"), which is the Group's presentation currency.

The results and financial position of the Group are translated into the presentation currency using the following procedures:
- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate as of the reporting date of that statement of financial position;
- Income and expenses for each consolidated statement of comprehensive income are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognized as a separate component of equity.

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies continued

The relevant exchange rates were:

Currency	Closing rate as of 31 December 2012	Average for 2012	Closing rate as of 31 December 2011	Average for 2011	Closing rate as of 31 December 2010	Average for 2010
UAH/USD	**7.9930**	**7.9910**	7.9898	7.9677	7.9617	7.9353
UAH/EUR	**10.5372**	**10.2692**	10.2981	11.0926	10.5731	10.5313

Basis of consolidation

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

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

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

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

Accounting for acquisitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government grants
Government grants received or receivable for processing of live animals and value added tax ("VAT"), and grants for the agricultural industry (conditional upon reinvestment of the granted funds for agricultural production purposes) are recognized as income over the periods necessary to match them with the related costs, or as an offset against finance costs when received as compensation for the finance costs for agricultural producers. To the extent the conditions attached to the grants are not met at the reporting date, the 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies continued

Government grants *continued*

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies continued

Income taxes *continued*

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.

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

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

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

Deferred tax assets and liabilities are offset when:

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

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

Inventories

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

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

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

Biological assets and agricultural produce

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

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

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

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

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

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

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

Biological Assets

(i) Broilers

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

(ii) Breeders

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

(iii) Cattle and pigs

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

(iv) Orchards

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

(v) Crops in fields

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

Agricultural Produce

(i) Dressed poultry, beef and pork

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

(ii) Grain and fruits

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

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

Financial instruments

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

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

Accounts receivable

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies continued

Cash and cash equivalents

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

Bank borrowings, corporate bonds issued and other long-term payables

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

Derivative financial instruments

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

Embedded derivatives

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

As of 31 December 2012, 2011 and 2010 there were no material derivative financial instruments that were recognized in these consolidated financial statements.

Trade and other accounts payable

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

Leases

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

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

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

Provisions

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

Reclassifications and revisions

Certain comparative information presented in the consolidated financial statements for the years ended December 31, 2011 and 2010 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2012. Such reclassifications and revisions were not significant to the Group financial statements.

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 judgments, 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 judgments 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 the consolidated 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 13).

Revenue recognition
In the normal course of business, the Group engages in sale and purchase transactions with the purpose of exchanging crops in various locations to fulfill the Group's production requirements. In accordance with the Group's accounting policy, revenue is not 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 2012 and 2011, the Group acquired components for mixed fodder production from a local supplier under grain purchase financing arrangements. According to the contractual terms, legal ownership to the goods passed to the Group on physical delivery to the Group's grain storage facilities, which is generally the date when inventories are recognized in the Group's financial statements. However, based on the analysis of the nature of this arrangement, management applied judgment to determine the date on which control over these goods passed to the Group. In making this judgment, management considered the relevant significance of risk and rewards associated with ownership of grain, in particular date of transfer of physical damage risk, as well as commercial risks and benefits associated with ownership. Based on this assessment, management concluded that the Group assumed risk of physical damage and obtained commercial benefits prior to obtaining legal ownership over these inventories and as such, that these inventories should be recognized in the Group's financial statements from the date when they were acquired by the supplier. There were no such transactions in the year ended 31 December 2010.

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

Group appointed an independent valuator for revaluation of its grain storage facilities during the year ended 31 December 2012. Key assumptions used by independent valuator in assessing fair value of grain storage facilities using cost replacement method was as follows:
- present condition of particular assets was ranked from excellent to good;
- changes in prices of assets and construction materials from the date of its acquisition/construction till the date of valuation was assessed as 1.15;
- other external and internal factors that might have effect on fair value of grain-storage facilities;
- received results of revaluation based on replacement cost approach were compared with revaluation performed using income approach to check for impairment indicators of revalued assets, if any. Discount factor used in the model was USD WACC of 18.8%.

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

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

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.

During the year ended 31 December 2012 fair value of biological assets and agricultural produce was estimated using UAH WACC discount factor of 21,67% (31 December 2011: 19,87%; 31 December 2010 15,66%).

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.

VAT recoverable

Note 14 describes long-term VAT recoverable accumulated by the Group on its capital expenditures and investments in working capital. The balance of VAT recoverable may be 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.

Vinnytsia complex commissioning

As discussed in Notes 1 and 12, during the second half of 2012 the Group started commissioning production facilities at Vinnytsia complex, which were already completed, and therefore were operated under the trial mode. During this period the facilities were not ready for being used in the manner intended by management and no depreciation was charged. After, the trial period completion, the Group has been launching into operations production facilities reaching a full production capacity in forthcoming years and commenced depreciation of respective assets.

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

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

Grain growing operations segment:

- sales of grain

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

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

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

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

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

Year ended 31 December 2011	Poultry and related operations	Grain growing	Other agricultural operations	Eliminations	Consolidated
External sales	978,871	103,739	146,480	–	1,229,090
Sales between business segments	36,381	117,831	5,203	(159,415)	–
Total revenue	1,015,252	221,570	151,683	(159,415)	1,229,090
Segment results	236,602	104,286	9,651	–	350,539
Unallocated corporate expenses					(29,795)
Other expenses, net[1]					(58,629)
Profit before tax					262,115
Other information:					
Additions to property, plant and equipment[2]	309,072	23,079	7,598	–	339,749
Depreciation and amortization expense[3]	53,879	16,422	6,742	–	77,043
Net change in fair value of biological assets and agricultural produce	2,665	17,322	1,301	–	21,288

1 Include finance income, finance costs, foreign exchange gain (net) and other expenses (net).
2 Additions to property, plant and equipment in 2011 (Note 12) include unallocated additions in the amount of USD 2,527 thousand.
3 Depreciation and amortization for the year ended 31 December 2011 does not include unallocated depreciation and amortization in the amount of USD 3,298 thousand.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

5. Segment information continued

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

1 Include finance income, finance costs, foreign exchange gain (net) and other expenses (net).
2 Additions to property, plant and equipment in 2010 (Note 12) include unallocated additions in the amount of USD 4,818 thousand.
3 Depreciation and amortization for the year ended 31 December 2010 does not include unallocated depreciation and amortization in the amount of USD 3,320 thousand.

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2012, 2011 and 2010:

	2012	2011	2010
Sunflower oil and related products	**227,835**	222,418	188,156
Grain	**138,639**	63,101	22,454
Chicken meat and related products	**112,931**	67,874	29,147
Other agricultural segment products	**431**	486	290
	479,836	353,879	240,047

Export sales of sunflower oil and related products and export sales of grains are primarily made to global trading companies at CPT port terms. The major markets for the Group's export sales of chicken meat are Kazakhstan and Russia as well as, to the lower extent, other CIS countries, Middle East, Central Asia and Africa.

6. Revenue

Revenue for the years ended 31 December 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Poultry and related operations segment			
Chicken meat	**804,381**	693,207	562,982
Sunflower oil and related products	**227,835**	222,418	188,156
Other poultry related sales	**50,762**	63,246	49,099
	1,082,978	978,871	800,237
Grain growing operations segment			
Grain	**169,142**	103,739	35,631
	169,142	103,739	35,631
Other agricultural operations segment			
Other meat	**102,959**	99,740	79,185
Other agricultural sales	**52,443**	46,740	29,153
	155,402	146,480	108,338
	1,407,522	1,229,090	944,206

7. Cost of sales

Cost of sales for the years ended 31 December 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Poultry and related operations	**705,128**	684,001	546,494
Grain growing operations	**147,821**	71,883	29,771
Other agricultural operations	**148,960**	133,243	104,372
	1,001,909	889,127	680,637

For the years ended 31 December 2012, 2011 and 2010 cost of sales comprised the following:

	2012	2011	2010
Costs of raw materials and other inventory used	**700,410**	620,385	475,093
Payroll and related expenses	**151,538**	131,840	101,425
Depreciation and amortization expense	**74,870**	66,675	56,799
Other costs	**75,091**	70,227	47,320
	1,001,909	889,127	680,637

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

8. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Payroll and related expenses	**46,414**	40,391	43,576
Services	**20,738**	24,381	17,517
Fuel and other materials used	**13,646**	12,433	9,166
Advertising expense	**12,691**	2,415	9,094
Depreciation expense	**12,265**	13,666	11,103
Representative costs and business trips	**8,641**	8,330	8,611
Insurance expense	**1,594**	1,919	1,734
Bank services and conversion fees	**474**	486	535
Other	**4,022**	2,426	771
	120,485	106,447	102,107

Remuneration to the auditors, included in Services above, approximate to USD 744 thousand, USD 832 thousand and USD 1,000 thousand for the years ended 31 December 2012, 2011 and 2010, respectively, and audit fees approximate USD 600 thousand for each of the years ended 31 December 2012, 2011 and 2010, with the remaining amount attributable to other advisory fees.

During the year ended 31 December 2010 Payroll and related expenses included a one-off bonus paid by the Group to one of the top managers in the form of 455,000 shares representing 0.4% of the share capital of MHP S.A. (Note 22). The amount recognized as part of selling, general and administrative expenses, was measured as the sum of the fair value of the shares at grant date of USD 6,483 thousand and the amount of payroll related taxes of USD 1,145 thousand (Note 28).

9. VAT refunds and other government grants income

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

VAT refunds and other government grants recognized by the Group as income during the years ended 31 December 2012, 2011 and 2010 were as follows:

	2012	2011	2010
VAT refunds	**101,581**	87,476	80,223
Fruits and vine cultivation	**343**	26	1,219
Other government grants	**445**	483	616
	102,369	87,985	82,058

VAT refunds for agricultural industry

According to the Tax Code of Ukraine issued in December 2010 and effective as of 1 January 2011 («Tax Code»), companies that generated not less than 75% of gross revenues for the previous tax year from sales of own agricultural products are entitled to retain VAT on sales of agricultural products, net of VAT paid on purchases, for use in agricultural production.

In accordance with the Tax Code, the VAT rate will be decreased from currently effective 20% to 17% starting from 1 January 2014. The special VAT regime for the agricultural industry will be effective through 1 January 2018.

Included in VAT refunds for the years ended 31 December 2012, 2011 and 2010 there were specific VAT subsidies for the production and sale of milk and live animals for further processing in the amount of USD 1,426 thousand, USD 422 thousand and USD 2,125 thousand, respectively.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

9. VAT refunds and other government grants income continued

Government grants on fruits and vine cultivation

In accordance with the Law "On State Budget of Ukraine" two companies of the Group received grants for the years ended 31 December 2012, 2011 and 2010 for the creation and cultivating of orchards, vines and berry-fields.

Other government grants

Other government grants recognized as income during the years ended 31 December 2012, 2011 and 2010 mainly comprised subsidies related to crop growing.

In addition to the government grants income recognized by the Group, the Group receives a grant to compensate agricultural producers for costs used to finance operations. Agricultural producers are entitled to the compensation of finance costs incurred on bank borrowings in accordance with the Law "On State Budget of Ukraine" during the years ended 31 December 2012, 2011 and 2010. 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 2012, 2011 and 2010 were USD nil, USD 1,828 thousand and USD 4,999 thousand, respectively (Note 10).

10. Finance costs

Finance costs for the years ended 31 December 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Interest on corporate bonds	**64,449**	64,996	50,911
Interest on bank borrowings	**15,839**	9,720	8,539
Interest on obligations under finance leases	**4,795**	5,157	5,979
Interest on financing arrangements for grain purchases	**643**	294	3,049
Bank commissions and other charges	**3,786**	3,782	1,921
Government grants as compensation for the finance costs of agricultural producers (Note 9)	**–**	(1,828)	(4,999)
Total finance costs	**89,512**	82,121	65,400
Less:			
Finance costs included in the cost of qualifying assets	**(30,201)**	(16,203)	(2,456)
	59,311	65,918	62,944

For qualifying assets, the weighted average capitalization rate on funds borrowed generally during the year ended 31 December 2012 was 8.10% (2011: 9.55%, 2010: 10.62%).

Interest on corporate bonds for the years ended 31 December 2012, 2011 and 2010 includes amortization of premium and debt issue costs on bonds issued in the amounts of USD 4,509 thousand, USD 4,124 thousand and USD 1,526 thousand, respectively.

11. Income tax

Substantially all of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2012, 2011 and 2010. The majority of the Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Tax Code. The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Municipal Tax, Natural Resources Usage Duty, Geological Survey Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognized in the statement of comprehensive income in other operating expenses.

During the year ended 31 December 2012, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a rate of 21% (1 January 2011 – 1 April 2011 – 25%, 1 April 2011 – 31 December 2011 – 23%, and for the year ended 31 December 2010 – 25%).

The Tax Code of Ukraine (Note 29) is introducing gradual decreases in income tax rates 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 2012, 2011 and 2010 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The components of income tax expense were as follows for the years ended 31 December 2012, 2011 and 2010:

	2012	2011	2010
Current income tax charge	**7,915**	5,664	3,413
Deferred tax benefit	**(127)**	(2,904)	(1,540)
Income tax expense	**7,788**	2,760	1,873

Reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2012, 2011 and 2010 was as follows:

	2012	2011	2010
Profit before income tax	**318,704**	262,115	217,321
At the Company's statutory income tax rate of 21% (23% since 1 April 2011 till 31 December 2011, 25% till 1 April 2011)	**66,928**	61,010	54,330
Tax effect of:			
Income generated by FAT payers (exempt from income tax)	**(82,443)**	(77,043)	(76,815)
Changes in tax rate and law	**–**	–	(18,801)
(Recognized)/unrecognized deferred tax assets on property, plant and equipment	**–**	(6,792)	6,792
Non-deductible expenses (by law)	**19,402**	10,332	11,889
Expenses not deducted for tax purposes (policy choice)	**3,901**	15,253	24,478
Income tax expense	**7,788**	2,760	1,873

As of 31 December 2012, 2011 and 2010 the Group did not recognize deferred tax assets arising from temporary differences of USD 18.576 thousand, USD 64,907 thousand and USD 97,912 thousand, respectively, as the Group did not intend to deduct the relevant expenses for tax purposes in subsequent periods. As of 31 December 2010 the Group did not recognize deferred tax assets on temporary differences in respect of the property, plant and equipment of USD 27,168 thousand due to uncertainties relating to norms of Tax Code which came into effect from 1 April 2011. As of 31 December 2011, subsequent to the implementation of the Tax Code, management of the Group reassessed the recoverability of the deferred tax assets in respect property, plant and equipment. The Group was able to utilize part of the deferred tax assets balance in 2011 and has the ability to utilize the residual balance in future periods in accordance with the provisions of the Tax Code.

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

As of 31 December 2012, 2011 and 2010 deferred tax assets and liabilities comprised the following:

	2012	2011	2010
Deferred tax assets arising from:			
Property, plant and equipment	**4,732**	5,996	6,792
Other current liabilities	**1,301**	1,518	1,619
Inventories	**1,081**	1,011	–
Advances received and other payables	**849**	1,155	4,284
Expenses deferred in tax books	**3,484**	288	1,942
Less:			
Unrecognized deferred tax assets	**–**	–	(6,792)
Total deferred tax assets	**11,447**	9,968	7,845
Deferred tax liabilities arising from:			
Property, plant and equipment	**(4,165)**	(2,987)	(2,655)
Inventories	**(2,138)**	(996)	(675)
Prepayments to suppliers	**(258)**	(397)	(1,827)
Total deferred tax liabilities	**(6,561)**	(4,380)	(5,157)
Net deferred tax assets	**4,886**	5,588	2,688

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

11. Income tax continued

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Deferred tax assets	**8,231**	7,795	5,190
Deferred tax liabilities	**(3,345)**	(2,207)	(2,502)
	4,886	5,588	2,688

The movements in net deferred tax assets for the years ended 31 December 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Net deferred tax assets as of beginning of the year	**5,588**	2,688	1,213
Deferred tax benefit	**127**	2,904	1,540
Deferred tax on property, plant and equipment charged directly to revaluation reserve	**(826)**		–
Translation difference	**(3)**	(4)	(65)
Net deferred tax assets as of end of the year	**4,886**	5,588	2,688

12. Property, plant and equipment

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

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

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

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

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

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

During the second half of 2012 the Group started commissioning production facilities at Vinnytsia complex, which were already completed. Since the end of 2012 respective production facilities have been launching into operations reaching a full production capacity in forthcoming years (Note 1). The facilities of Vinnytsia complex remaining under construction as of 31 December 2012 will be commissioned during 2013 and 2014, as scheduled.

As of 31 December 2012, included within construction in progress were prepayments for property, plant and equipment in the amount of USD 24,796 thousand (2011: USD 46,086 thousand, 2010: USD 25,020 thousand).

As of 31 December 2012, included within property, plant and equipment were fully depreciated assets with the original cost of USD 34,722 thousand (2011: USD 19,647 thousand, 2010: USD 12,494 thousand).

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

12. Property, plant and equipment continued

As of 31 December 2012, certain of the Group's machinery and equipment with the carrying amount of USD nil (2011: USD 4,648 thousand, 2010: USD 5,247 thousand) were pledged as collateral to secure its bank borrowings (Note 23).

As of 31 December 2012, 2011 and 2010 the net carrying amount of property, plant and equipment, represented by vehicles and agricultural machinery, held under finance lease agreements was USD 69,059 thousand, USD 73,798 thousand and USD 72,234 thousand, respectively.

Impairment assessment

The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, there were no indicators of impairment as of 31 December 2012, 2011 and 2010.

Revaluation of grain storage facilities

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

No revaluation of grain storage facilities was performed during the years ended 31 December 2011 and 2010 as, based on management's assessment, the fair value of grain storage facilities as of 31 December 2011 and 2010 did not materially differ from their carrying amount.

If the grain storage facilities were carried at cost and depreciated on a straight line basis based on their original depreciation rate, their net book value as of 31 December 2012 would be USD 24,102 thousand (2011: USD 20,514 thousand, 2010: USD 13,792 thousand).

13. Land lease rights

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 asset acquisitions and through business combinations.

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

	2012	2011	2010
Cost:			
As of 1 January	**30,332**	24,439	965
Additions	**1,314**	5,995	4,767
Acquired through business combinations (Note 2)	**–**	–	18,801
Translation difference	**(12)**	(102)	(94)
As of 31 December	**31,634**	30,332	24,439
Accumulated amortization:			
As of 1 January	**3,105**	1,223	111
Amortization charge for the year	**1,837**	1,891	1,117
Translation difference	**(2)**	(9)	(5)
As of 31 December	**4,940**	3,105	1,223
Net book value:			
As of 1 January	**27,227**	23,216	854
As of 31 December	**26,694**	27,227	23,216

14. Long-term VAT recoverable, net

As of 31 December 2012, 2011 and 2010 the balance of long-term VAT recoverable was accumulated on continuing capital expenditures. Management expects that these balances will not be recovered within twelve months of the reporting date.

As of 31 December 2012, an allowance for estimated irrecoverable long-term VAT of USD 7,754 thousand was recorded by the Group (2011: USD 4,938 thousand, 2010: USD 3,746 thousand).

15. Biological assets

The balances of non-current biological assets were as follows as of 31 December 2012, 2011 and 2010:

	2012		2011		2010	
	Thousand units	**Carrying amount**	Thousand units	Carrying amount	Thousand units	Carrying amount
Orchards, hectare	**1.64**	**30,018**	1.64	27,978	1.87	25,768
Milk cows, boars, sows, units	**21.6**	**18,547**	14.1	14,803	13.1	13,997
Other non-current bearer biological assets		**994**		906		714
Total bearer non-current biological assets		**49,559**		43,687		40,479
Non-current cattle and pigs, units	**7.1**	**4,136**	5.1	2,640	5.9	2,809
Total consumable non-current biological assets		**4,136**		2,640		2,809
Total non-current biological assets		**53,695**		46,327		43,288

The balances of current biological assets were as follows as of 31 December 2012, 2011 and 2010:

	2012		2011		2010	
	Thousand units	**Carrying amount**	Thousand units	Carrying amount	Thousand units	Carrying amount
Breeders held for hatchery eggs production, units	**2,634**	**54,273**	2,384	39,345	2,360	39,530
Total bearer current biological assets		**54,273**		39,345		39,530
Broiler poultry, units	**26,223**	**51,051**	25,273	55,411	26,371	43,287
Hatchery eggs, units	**20,587**	**6,628**	20,472	5,915	20,179	5,724
Crops in fields, hectare	**75**	**39,590**	71	23,876	76	17,840
Cattle and pigs, units	**45**	**7,204**	56	10,654	61	9,118
Other current consumable biological assets		**530**		789		811
Total consumable current biological assets		**105,003**		96,645		76,780
Total current biological assets		**159,276**		135,990		116,310

Other current consumable biological assets include geese and other livestock.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

15. Biological assets continued

The following table represents movements in biological assets for the years ended 31 December 2012, 2011 and 2010:

	Crops in fields	Orchards	Breeders held for hatchery eggs production	Broiler poultry	Milk cows, boars, sows	Non-current cattle and pigs	Cattle, pigs
As of 1 January 2010	11,715	23,478	35,845	36,957	9,560	2,667	6,714
Increase due to purchases	3,135	1,537	8,176	2,830	176	65	1,756
Acquired through business combinations (Note 2)	2,234	–	–	–	3,411	71	3,560
Gains/(losses) arising from change in fair value of biological assets less costs to sell	155,551	10,104	72,341	504,092	10,599	(1,976)	23,792
Transfer to consumable biological assets	–	–	(69,968)	69,968	(1,782)	(295)	2,077
Transfer to bearing non-current biological assets	–	–	–	–	2,162	3,724	(5,886)
Decrease due to sale	–	–	–	–	(529)	(7)	(8,371)
Decrease due to harvest	(154,791)	(9,455)	(6,957)	(570,647)	(9,611)	(1,449)	(14,535)
Translation difference	(4)	104	93	87	11	9	11
As of 31 December 2010	17,840	25,768	39,530	43,287	13,997	2,809	9,118
Increase due to purchases	7,239	1,820	8,983	80	12	35	1,946
Gains/(losses) arising from change in fair value of biological assets less costs to sell	273,357	13,487	84,905	616,361	12,781	(63)	32,249
Transfer to consumable biological assets	–	–	(76,889)	76,889	(1,325)	(285)	1,610
Transfer to bearing non-current biological assets	–	–	–	–	4,072	1,269	(5,340)
Decrease due to sale	–	–	–	–	(198)	(12)	(11,291)
Decrease due to harvest	(274,383)	(12,994)	(17,045)	(681,022)	(14,484)	(1,104)	(17,601)
Translation difference	(177)	(103)	(139)	(184)	(52)	(9)	(37)
As of 31 December 2011	23,876	27,978	39,345	55,411	14,803	2,640	10,654
Increase due to purchases	6,300	1,896	10,359	186	251	54	1,722
Gains/(losses) arising from change in fair value of biological assets less costs to sell	290,952	13,964	104,920	725,261	12,820	(389)	31,402
Transfer to consumable biological assets	–	–	(87,496)	87,496	–	(176)	176
Transfer to bearing non-current biological assets	–	–	–	–	9,559	2,498	(12,057)
Decrease due to sale	–	–	–	–	(599)	(13)	(12,303)
Decrease due to harvest	(281,529)	(13,805)	(12,836)	(817,282)	(18,279)	(477)	(12,388)
Translation difference	(9)	(15)	(19)	(21)	(8)	(1)	(2)
As of 31 December 2012	**39,590**	**30,018**	**54,273**	**51,051**	**18,547**	**4,136**	**7,204**

16. Inventories

The balances of inventories were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Components for mixed fodder production	**175,013**	111,220	83,477
Work in progress	**44,043**	35,705	19,100
Other raw materials	**25,023**	19,037	14,345
Spare parts	**10,999**	5,373	3,831
Sunflower oil	**9,662**	3,077	4,234
Packaging materials	**4,533**	4,057	4,092
Mixed fodder	**3,802**	2,822	2,231
Other inventories	**1,180**	949	1,281
	274,255	182,240	132,591

As of 31 December 2012, 2011 and 2010 work in progress in the amount of USD 44,043 thousand, 35,705 thousand and USD 19,100 thousand comprised expenses incurred in cultivating fields to be planted in the years 2013, 2012 and 2011, respectively.

As of 31 December 2012, components for mixed fodder production with carrying amount of USD 62,500 thousand (2011: USD 45,491 thousand, 2010: USD 62,500 thousand) were pledged as collateral to secure bank borrowings (Note 23).

17. Agricultural produce

The balances of agricultural produce were as follows as of 31 December 2012, 2011 and 2010:

	2012		2011		2010	
	Thousand tonnes	**Carrying amount**	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
Chicken meat	**14,715**	**26,206**	5,561	11,716	15,333	24,403
Other meat	**N/A[1]**	**4,059**	N/A[1]	6,380	N/A[1]	4,058
Grain	**631**	**121,507**	841	131,764	455	77,069
Fruits, vegetables and other crops	**N/A[1]**	**14,356**	N/A[1]	19,162	N/A[1]	8,320
		166,128		169,022		113,850

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

18. Taxes recoverable and prepaid, net

Taxes recoverable and prepaid were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
VAT recoverable	**213,944**	149,853	116,534
Miscellaneous taxes prepaid	**5,228**	1,350	1,472
Less: allowance for irrecoverable VAT	**(18,864)**	(14,028)	(10,182)
	200,308	137,175	107,824

19. Trade accounts receivable, net

The balances of trade accounts receivable were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Agricultural operations	**59,177**	53,750	44,888
Due from related parties (Note 28)	**10,359**	10,895	7,756
Sunflower oil sales	**4,237**	1,934	1,536
Less: allowance for irrecoverable amounts	**(1,157)**	(785)	(785)
	72,616	65,794	53,395

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

The Group also performs specific analysis of trade accounts receivable due from individual customers to determine whether any further adjustments are required to the allowance for irrecoverable amounts assessed on the percentages disclosed above. Based on the results of such a review as of 31 December 2012 the Group determined that trade accounts receivable on sales of poultry meat of USD 456 thousand (2011: USD 750 thousand, 2010: USD 305 thousand) were overdue but do not require allowance for irrecoverable amounts.

For the year ended 31 December 2012, 2011 and 2010 the Group has not recorded any impairment of receivables relating to amounts owed by related parties as management is certain about their recoverability.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

19. Trade accounts receivable, net continued

The ageing of trade accounts receivable that were impaired as of 31 December 2012, 2011 and 2010 was as follows:

	Trade accounts receivable			Allowance for irrecoverable amounts		
	2012	2011	2010	**2012**	2011	2010
Trade accounts receivable on sales of poultry meat:						
Over 30 but less than 270 days	**915**	372	408	**(457)**	(93)	(102)
Over 270 days	**125**	344	79	**(125)**	(344)	(79)
	1,040	716	487	**(582)**	(437)	(181)
Trade accounts receivable on other sales:						
Over 60 but less than 360 days	**359**	199	141	**(141)**	(50)	(35)
Over 360 days	**434**	298	569	**(434)**	(298)	(569)
	793	497	710	**(575)**	(348)	(604)
	1,833	1,213	1,197	**(1,157)**	(785)	(785)

20. Short-term bank deposits

Short-term bank deposits were as follows as of 31 December 2012, 2011 and 2010:

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

As of 31 December 2011 and 2010, short-term deposits were placed with Ukrainian banks for periods of six months to one year. As of 31 December 2012 the Group had no short-term bank deposits.

21. Cash and cash equivalents

The balances of cash and cash equivalents were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Cash in hand and with banks	**41,027**	47,119	39,321
USD short-term deposits with banks	**45,000**	37,000	–
UAH short-term deposits with banks	**8,758**	10,639	–
	94,785	94,758	39,321

During the year ended 31 December 2012, UAH and USD denominated short-term deposits earned an effective interest rate of 18.00% and 6.42%, respectively (2011: 5.29% and 5.60%, respectively; 2010: nil). All cash and cash equivalents are held within reputable foreign and Ukrainian banks.

22. Shareholders' equity

Share capital

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

	2012	2011	2010
Number of shares authorized for issue	**159,250,000**	159,250,000	159,250,000
Number of shares issued and fully paid	**110,770,000**	110,770,000	110,770,000
Number of shares outstanding	**105,666,888**	107,854,856	107,854,856

The authorized share capital as of 31 December 2012, 2011 and 2010 was EUR 318,500 thousand represented by 159,250,000 shares with par value of EUR 2 each.

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

Treasury shares

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

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

23. Bank borrowings

The following table summarizes bank borrowings and credit lines outstanding as of 31 December 2012, 2011 and 2010:

		2012		2011		2010	
Bank	Currency	WAIR[1]	USD' 000	WAIR[1]	USD' 000	WAIR[1]	USD' 000
Foreign banks	USD	**5.14%**	**190,976**	4.39%	95,979	5.52%	78,642
Foreign banks	EUR	**2.15%**	**162,675**	3.13%	97,009	3.12%	56,712
			353,651		192,988		135,354
Ukrainian banks	USD	**5.43%**	**147,490**	5.39%	86,500	6.25%	36,750
Ukrainian banks	UAH		**–**		–	7.75%	26,414
			147,490		86,500		63,164
Total bank borrowings			**501,141**		279,488		198,518
Less: Short-term bank borrowings and current portion of long-term bank borrowings			**(301,658)**		(170,380)		(140,092)
Total long-term bank borrowings			**199,483**		109,108		58,426

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

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

Term loans and credit line facilities were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Credit lines	**232,490**	146,500	141,806
Term loans	**268,651**	132,988	56,712
	501,141	279,488	198,518

The following table summarizes fixed and floating interest rates bank loans and credit lines held by the Group as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Floating interest rate	**501,141**	276,712	158,750
Fixed interest rate	**–**	2,776	39,768
	501,141	279,488	198,518

Bank borrowings and credit lines outstanding as of 31 December 2012, 2011 and 2010 were repayable as follows:

	2012	2011	2010
Within one year	**301,658**	170,380	140,092
In the second year	**66,840**	30,951	22,001
In the third to fifth year inclusive	**115,316**	60,871	31,377
After five years	**17,327**	17,286	5,048
	501,141	279,488	198,518

As of 31 December 2012, the Group had available undrawn facilities of USD 133,981 thousand (2011: USD 251,315 thousand, 2010: USD 168,323 thousand). These undrawn facilities expire during the period from January 2013 until June 2020.

Notes to the consolidated financial statements continued

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23. Bank borrowings continued

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

During the years ended 31 December 2012, 2011 and 2010 the Group has complied with all covenants imposed by banks providing the loans.

As of 31 December 2012, the Group had borrowings of USD 50,000 thousand (2011: USD 52,191 thousand, 2010: USD 55,751 thousand) that were secured. These borrowings were secured by property, plant and equipment with a carrying amount of USD nil thousand (2011: USD 4,648 thousand, 2010: USD 5,247 thousand) (Note 12) and inventories with a carrying amount of USD 62,500 thousand (2011: USD 45,491 thousand, 2010: 62,500) (Note 16).

As of 31 December 2012, 2011 and 2010 accrued interest on bank borrowings were USD 3,969 thousand, USD 1,916 thousand and USD 1,329 thousand, respectively

24. Bonds issued

Bonds issued and outstanding as of 31 December 2012, 2011 and 2010 were as follows:

	2012	2011	2010
10.25% Senior Notes due in 2011	**–**	–	9,967
10.25% Senior Notes due in 2015	**584,767**	584,767	584,767
Unamortized premium on bonds issued	**2,801**	3,755	4,640
Unamortized debt issuance cost	**(16,053)**	(21,522)	(26,596)
	571,515	567,000	572,778
Less:			
Current portion of bonds issued	**–**	–	(9,892)
Total long-term portion of bonds issued	**571,515**	567,000	562,886

As of 31 December 2012, 2011 and 2010 accrued interest on bonds issued were USD 10,156 thousand, USD 10,157 thousand and USD 10,244 thousand, respectively.

10.25% Senior Notes

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

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

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

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

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

During the years ended 31 December 2012, 2011 and 2010 the Group has complied with all covenants defined by indebtedness agreement.

The weighted average effective interest rate on the Senior Notes is 11.7% per annum for the years ended 31 December 2012, 2011 and 2010. The notes are listed on London Stock Exchange.

25. 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 2012, the weighted average interest rates on finance lease obligations were 7.28% and 7.69% for finance lease obligations denominated in EUR and USD, respectively (2011: 8.88% and 7.68%, 2010: 8.92% and 7.91%).

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2012, 2011 and 2010:

	Minimum lease payments			Present value of minimum lease payments		
	2012	2011	2010	**2012**	2011	2010
Payable within one year	**25,704**	22,736	28,350	**21,491**	19,267	23,827
Payable in the second year	**20,130**	16,391	18,775	**17,814**	14,706	16,705
Payable in the third to fifth year inclusive	**30,488**	19,145	22,353	**28,142**	17,852	20,684
	76,322	58,272	69,478	**67,447**	51,825	61,216
Less:						
Future finance charges	**(8,875)**	(6,447)	(8,262)	**–**	–	–
Present value of finance lease obligations	**67,447**	51,825	61,216	**67,447**	51,825	61,216
Less:						
Current portion				**(21,492)**	(19,267)	(23,827)
Finance lease obligations, long-term portion				**45,955**	32,558	37,389

26. Trade accounts payable

Trade accounts payable were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Trade accounts payable to third parties	**68,918**	52,655	18,986
Payables due to related parties (Note 28)	**52**	34	26
	68,970	52,689	19,012

As of 31 December 2012 trade accounts payable included liabilities that bear a floating rate of interest under grain purchase financing arrangements in the amount of USD 29,362 thousand and accrued interest of USD 294 thousand (2011: USD 11,184 thousand and accrued interest of USD 126 thousand, 2010: nil).

27. Other current liabilities

Other current liabilities were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Accrued payroll and related taxes	**34,285**	32,886	24,528
Amounts payable for property, plant and equipment	**11,415**	10,236	4,396
Advances from and other payables due to third parties	**7,820**	1,921	4,137
Advances from related parties (Note 28)	**200**	200	200
Other payables	**9,182**	8,026	4,781
	62,902	53,269	38,042

28. Related party balances and transactions

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

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

Transactions with related parties under common control

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

Notes to the consolidated financial statements continued

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28. Related party balances and transactions continued

Transactions with related parties under common control *continued*

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

The transactions with the related parties during the years ended 31 December 2012, 2011 and 2012 were as follows:

	2012	2011	2010
Sales of goods to related parties	**9,058**	10,649	7,476
Sales of services to related parties	**107**	89	51
Purchases from related parties	**544**	127	194

The balances owed to and due from related parties were as follows as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Trade accounts receivable (Note 19)	**10,359**	10,895	7,756
Payables due to related parties (Note 28)	**52**	34	26
Advances received (Note 27)	**200**	200	200
Advances, finance aid	**4,935**	2,000	2,304

Compensation of key management personnel

Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to USD 11,686 thousand, USD 8,741 thousand and USD 15,514 thousand for the years ended 31 December 2012, 2011 and 2010, respectively. Compensation of key management personnel consists of contractual salary and performance bonuses. During the year ended 31 December 2010 compensation to key management personnel included a one-off bonus to one of the top managers in the amount of USD 7,628 thousand (Note 8).

Total compensation of the Group's non-executive directors, which consists of contractual salary, amounted to USD 407 thousand, USD 380 thousand and USD 353 thousand in 2012, 2011 and 2010, respectively.

Key management personnel totalled 40, 38 and 38 individuals as of 31 December 2012, 2011 and 2010, respectively, including 4 independent directors as of 31 December 2012 and 2011 and 3 independent directors as of 31 December 2010.

Other transactions with related parties

In December 2012 the Group increased its effective ownership interest in NPF Urozhay to 99.9% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 1,257,032 treasury shares held by the Group (Note 2, 22).

29. 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 business 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.

After the crisis year 2009, the Ukraine's economy recovered during 2010 and 2011, and has slowed in 2012. Due to a decrease of industrial production by 1.2%, GDP growth constituted 0.2%, in 2012, comparing to 5.2% growth in 2011 and 4.1% growth 2010.

The Ukrainian currency remained relatively stable during 2012, following the trends of 2011 and 2010.

Taxation

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

In December 2010, the Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later (such as, Section III dealing with corporate income tax, which came into force from 1 April 2011). Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for the agricultural industry from 1 January 2018, as discussed in Notes 11 and 9, respectively, the Tax Code also changed various other taxation rules.

Legal issues

In the ordinary course of business, the Group is subject to legal actions and complaints. As of 31 December 2012, the Group companies had ongoing litigations with the tax authorities related to disallowance of certain amounts of VAT refunds claimed by the Group. According to the assessment performed by the management of the Group on a case by case basis the maximum exposure of the Group to such risks as of 31 December 2012 amounted to USD 30,729 thousand. Out of this amount, USD 29,533 thousand relates to cases where court hearings took place and where the court in either the first or second instance has already ruled in favour of the Group. Based on past history of court resolutions of similar lawsuits Management believes that possible exposure relating to these court cases amounts to approximately USD 1,196 thousand as of 31 December 2012 (2011: USD 2,000 thousand, 2010: nil).

Contractual commitments on purchase of property, plant and equipment

During the years ended 31 December 2012, 2011 and 2010, 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 2012, purchase commitments on such contracts were primarily related to construction of the Vinnytsya poultry complex and amounted to USD 14,689 thousand (2011: USD 80,168 thousand, 2010: USD 79,746 thousand).

Commitments on land operating leases

The Group has the following contractual obligations in respect of land operating leases as of 31 December 2012, 2011 and 2010:

	2012	2011	2010
Within one year	**22,011**	12,480	11,855
In the second to the fifth year inclusive	**74,288**	41,457	37,037
Thereafter	**79,551**	64,713	51,688
	175,850	118,650	100,580

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

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

30. Fair value of financial instruments

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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

30. Fair value of financial instruments continued

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

	Carrying amount			Fair value		
	2012	2011	2010	**2012**	2011	2010
Financial liabilities						
Bank borrowings (Note 23)	**501,141**	279,488	198,518	**508,702**	283,677	199,185
Senior Notes due in 2015 (Note 24)	**581,671**	577,157	573,043	**601,385**	513,697	613,339
Senior Notes due in 2011 (Note 24)	**–**	–	9,979	**–**	–	10,092
Finance lease obligations (Note 25)	**67,447**	51,825	61,216	**66,342**	51,418	63,420

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

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

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

31. Risk management policies

During the years ended 31 December 2012, 2011 and 2010 there were no changes to objectives, policies and process for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

Capital risk management

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

The Group's target is to achieve a leverage ratio (net debt to adjusted operating profit) of not higher than 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 2012, 2011 and 2010 the leverage ratio was as follows:

	2012	2011	2010
Bank borrowings (Note 23)	**501,141**	279,488	198,518
Bonds issued (Note 24)	**571,515**	567,000	572,778
Finance lease obligations (Note 25)	**67,447**	51,825	61,216
Debt	**1,140,103**	898,313	832,512
Less:			
Cash and cash equivalents and Short-term bank deposits	**(94,785)**	(96,535)	(173,781)
Net debt	**1,045,318**	801,778	658,731
Operating profit	**380,583**	320,744	256,784
Adjustments for:			
Depreciation and amortization expense (Notes 7,8)	**87,135**	80,341	67,902
Adjusted operating profit	**467,718**	401,085	324,686
Debt to adjusted operating profit	**2.44**	2.24	2.56
Net debt to adjusted operating profit	**2.23**	2.00	2.03

Debt is defined as bank borrowings, bonds issued and finance lease obligations. Net debt is defined as debt less cash and cash equivalents and short-term bank deposits. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 26). Adjusted operating profit is defined as operating profit adjusted for the depreciation and amortization expense and losses and gains believed by the management to be non-recurring in nature, as this measure produces results substantially comparable to those reviewed for the purposes of financial covenants under the Group's borrowings.

Major categories of financial instruments

	2012	2011	2010
Financial assets:			
Long-term bank deposits	**6,154**	6,017	–
Loans to employees and related parties	**1,966**	2,437	1,673
VAT bonds	**–**	–	5,038
Other receivables	**5,750**	1,828	2,320
Trade accounts receivable, net (Note 19)	**72,616**	65,794	53,395
Short-term bank deposits (Note 20)	**–**	1,777	134,460
Cash and cash equivalents (Note 21)	**94,785**	94,758	39,321
	181,271	172,611	236,207
Financial liabilities:			
Bank borrowings (Note 23)	**501,141**	279,488	198,518
Bonds issued (Note 24)	**571,515**	567,000	572,778
Finance lease obligations (Note 25)	**67,447**	51,825	61,216
Amounts payable for property, plant and equipment (Note 27)	**11,415**	10,236	4,396
Accrued interest	**14,125**	12,073	11,573
Trade accounts payable (Note 26)	**68,970**	52,689	19,012
Other current liabilities (Note 27)	**9,182**	8,026	4,781
	1,243,795	981,337	872,274

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

Credit risk

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

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

Limits on the level of credit risk by customer are approved and monitored on a regular basis by the management of the Group. The Group's management assesses amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. No assessment is performed immediately from the date credit period is expired. About 31% (2011: 28%, 2010: 29%) of trade accounts receivable comprise amounts due from 12 large supermarket chains, which have the longest contractual receivable settlement period among customers.

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2012. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

Year ended 31 December 2012	Carrying amount	Contractual amounts	Less than 1 year	From 2nd to 5th year	After 5th year
Bank borrowings	501,141	526,824	313,702	195,146	17,976
Bonds issued	571,515	734,613	59,939	674,674	–
Finance lease obligations	67,447	76,735	25,705	51,030	–
Total	1,140,103	1,338,172	399,346	920,850	17,976

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

31. Risk management policies continued

***Liquidity risk** continued*

The Group's target is to maintain its current ratio, defined as the proportion of current assets to current liabilities, at the level of not less than 1.2. As of 31 December 2012, 2011 and 2010, the current ratio was as follows:

	2012	2011	2010
Current assets	**1,001,248**	808,745	719,082
Current liabilities	**469,147**	307,678	242,438
	2.13	2.63	2.97

Currency risk

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

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

	2012		2011		2010	
	USD	**EUR**	USD	EUR	USD	EUR
ASSETS						
Long-term bank deposits	**–**	**6,154**	–	6,017	–	–
Trade accounts receivable	**8,607**	**–**	3,794	–	1,954	–
Other current assets, net	**732**	**35**	688	–	386	–
Short-term bank deposits	**–**	**–**	–	–	75,000	–
Cash and cash equivalents	**73,270**	**1,017**	71,766	1,165	27,217	128
	82,609	**7,206**	76,248	7,182	104,557	128
LIABILITIES						
Current liabilities						
Trade accounts payable	**30,592**	**4,897**	12,146	3,522	104	2,798
Other current liabilities	**593**	**5,508**	266	7,389	–	2,587
Accrued interest	**13,312**	**813**	11,416	657	11,163	311
Short-term bank borrowings	**270,362**	**31,296**	151,918	17,264	89,371	23,627
Short-term finance lease obligations	**12,794**	**8,698**	9,605	9,662	8,323	15,504
Current portion of bonds issued	**–**	**–**	–	–	9,967	–
	327,653	**51,212**	185,351	38,494	118,928	44,827
Non-current liabilities						
Long-term bank borrowings	**68,104**	**131,379**	30,561	79,745	26,021	33,085
Bonds issued	**584,767**	**–**	584,767	–	584,767	–
Long-term finance lease obligations	**25,013**	**20,536**	25,581	6,977	24,219	13,170
	677,884	**151,915**	640,909	86,722	635,007	46,255
	1,005,537	**203,127**	826,260	125,216	753,935	91,082

The table below details the Group's sensitivity to strengthening of the Ukrainian Hryvnia against the US Dollar and EUR. This sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for possible change in foreign currency rates.

	Change in foreign currency exchange rates	Effect on profit before tax
2012		
Increase in USD exchange rate	10%	(92,293)
Increase in EUR exchange rate	10%	(19,592)
Decrease in USD exchange rate	5%	46,146
Decrease in EUR exchange rate	5%	9,796
2011		
Increase in USD exchange rate	10%	(75,001)
Increase in EUR exchange rate	10%	(11,803)
Decrease in USD exchange rate	5%	37,501
Decrease in EUR exchange rate	5%	5,902
2010		
Increase in USD exchange rate	10%	(64,938)
Increase in EUR exchange rate	10%	(9,095)
Decrease in USD exchange rate	5%	32,469
Decrease in EUR exchange rate	5%	4,548

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

During the years ended 31 December 2012, 2011 and 2010, the Ukrainian Hryvnia was relatively stable against US dollar. During the year ended 31 December 2012 Ukrainian Hryvnia has depreciated against the EUR by 2.32% (2011: appreciated against the EUR by 2.60%, 2010: appreciated against the EUR by 7.65%). As a result, during the year ended 31 December 2012 the Group recognized net foreign exchange losses in the amount of USD 3,285 thousand (2011: foreign exchange gains in the amount of USD 2,318 thousand, 2010: foreign exchange gains of USD 10,965 thousand) in the consolidated statement of comprehensive income.

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

Group management believes that the currency risk is mitigated by the existence of USD-denominated proceeds from sales of sunflower oil, grain and chicken meat, which are sufficient for servicing the Group's foreign currency denominated liabilities and were as follows during the years, ended 31 December 2012, 2011 and 2010:

	2012	2011	2010
Sunflower oil and related products	**227,835**	222,418	188,156
Grain	**138,639**	63,101	22,454
Chicken meat and related products	**112,931**	67,874	29,147
Other agricultural segment products	**431**	486	290
	479,836	353,879	240,047

Notes to the consolidated financial statements continued

for the year ended 31 December 2012 (in thousands of US dollars, unless otherwise indicated)

31. Risk management policies continued

Interest rate risk

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

The below table details the Group's sensitivity to increases or decreases of interest rates by 5% (2011: 5%, 2010: 10%). The analysis was applied to interest bearing liabilities (bank borrowings, finance lease obligations and accounts payable under grain purchase financing arrangements) based on the assumption that the amount of liability outstanding as of the reporting date was outstanding for the whole year.

	Increase/ (decrease) of floating rate	Effect on profit before tax USD '000
2012		
LIBOR	5%	(17,146)
LIBOR	–5%	17,146
EURIBOR	5%	(8,189)
EURIBOR	–5%	8,189
2011		
LIBOR	5%	(9,263)
LIBOR	–5%	9,263
EURIBOR	5%	(4,781)
EURIBOR	–5%	4,781
2010		
LIBOR	10%	(11,825)
LIBOR	–10%	11,825
EURIBOR	10%	(5,778)
EURIBOR	–10%	5,778

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

Livestock diseases risk

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

Commodity price and procurement risk

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

32. Pensions and retirement plans

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 31 December 2012 was USD 58,450 thousand and is recorded in the consolidated statement of comprehensive income on an accrual basis (2011: USD 48,563 thousand, 2010: USD 34,024 thousand). In January 2011 in accordance with the Law of Ukraine "On charge and accounting of unified social contribution" certain changes in the administration of social charges were made and social charges are to become payable in the form of Unified Social Contribution, including contributions to the State Pension Fund in range of 36.76%-49.7% of gross salary cost. The Group companies are not liable for any other supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

33. Earnings per share

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

	2012	2011	2010
Profit for the year attributable to equity holders of the Parent	**297,104**	243,376	205,395
Earnings used in calculation of earnings per share	**297,104**	243,376	205,395
Weighted average number of shares outstanding	**106,242,419**	107,854,856	109,411,408
Basic and diluted earnings per share (USD per share)	**2.80**	2.26	1.88

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

34. Subsequent events

On 4 March 2013, the Board of Directors approved payment of a dividend of USD 1.13 per share, equivalent to approximately USD 120 million. Such dividend will be paid after the Company's subsidiaries distribute their 2012 profits to the Company. Therefore, the dividend will be paid as an interim dividend in 2013. The Company anticipates making a further announcement in this regard by mid-May 2013.

35. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issue by the Board of Directors of MHP S.A. on 4 March 2012.

Notes

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