PRESS RELEASE

March 05, 2013, Kyiv, Ukraine

MHP S.A.

Financial Results for the Fourth Quarter and Full Year ended December 31, 2012

MHP S.A. ("MHP" or the "Company", LSE ticker: "MHPC"), one of the leading agro-industrial companies in Ukraine, focusing on the production of poultry and the cultivation of grain, today announces its financial results for the fourth quarter 2012 and full year ended 31 December 2012.

Key operational highlights FY 2012

Vinnytsia – expansion project

- The Vinnytsia complex, in which US$636 million has been invested to date was commissioned to budget and ahead of schedule. All production sites of the project moved into trial production in the summer of 2012 and then were transitioned to in industrial production at the end of 2012.
- Currently a hatchery, a slaughter house and five rearing brigades etc. are operational and these units will gradually increase their capacity in line with the Company's production plan.
- In 2012, the Vinnytsia complex produced around 20,000 tonnes of chicken meat. When full production is reached in 2015, this first phase will have annual capacity of 220,000 tonnes.

Poultry

- In 2012, MHP increased its poultry production volumes by 5% to 404,000 tonnes of poultry meat (2011: 384,000 tonnes of poultry meat), mostly due to the launch of the Vinnytsia complex.
- The Company's total volume of chicken meat sold to third parties remained relatively stable, increasing by 1% to 375,300 tonnes (2011: 370,900 tonnes).
- MHP's market share of industrially produced chicken in Ukraine remained 50% and share of total poultry consumption remained at around 35%.
- Over the 2012 full year, the average chicken price increased by 15% to UAH 17.19 (net of VAT) per kg against UAH 15.00 (net of VAT) per kg in 2011.
- Total export sales of chicken in 2012 increased by over 65% compared to 2011 to 58,000 tonnes of frozen chicken meat, equivalent to 15% of total poultry sales volumes. In 2012, the Company opened new export sales markets which included UAE, Kenya, Oman and others.
- On 4 December 2012, EU authorities announced that Ukraine had been added to the list of countries that have the right to import poultry products into the EU. As MHP's facilities were pre-certified by the EU Commission previously in 2010, MHP now has the potential to sell poultry products into EU countries in the near future.
- In 2012, MHP sold 195,000 tonnes of sunflower oil, 12% more than in 2011, due to the launch of the Vinnytsia complex.

Grain Growing

- The total land bank at the end of 2012 constituted around 285,000 hectares, which represents an increase of around 5,000 hectares of land from 2011. Of this, approximately 250,000 hectares were used in grain growing segment for grain production and approximately 30,000 hectares were used in other agricultural segment.
- In 2012, the Company harvested around 250,000 hectares of land in grain growing operations with a total yield of 1.6 million tonnes (primarily grain corn) and oilseed; this was 6% less than the harvest of 2011 as a result of challenging weather conditions.

Other Agricultural

- Processed meat production remained the main contributor to the other agricultural segment.
- MHP is a market leader with close to 10% market share in meat processing in Ukraine.
- In 2012 MHP's sales volume of value added products decreased by 5% to 35,200 tonnes compared to 37,000 tonnes in 2011 as a result of optimizing the product portfolio during the year. However, the average sausage and cooked meat prices during 2012 increased significantly by 11% to UAH 22.20 per kg (net of VAT) compared to UAH 20.01 (net of VAT) per kg in 2011.

Key financial highlights for FY 2012

- Revenue increased by 15% to US$1,408 million (2011: US$1,229 million).
- EBITDA increased by 17% to US$468 million (2011: US$401 million).
- EBITDA margin remained at the same level at 33%.
- Net income from operations increased by 20% to US$311 million (2011: US$259 million).
- EPS increased by almost 24% from US$2.26 to US$2.80.

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

"2012 has been a good year in the Company's history as we maintained our track record of achieving the ambitious targets we set for ourselves. We took several significant steps towards our strategic objective, of building a stable, sustainable business with strong growth prospects. This was underpinned by strong financial results both in poultry and grain growing segments. After substantially completing this phase of our intensive CAPEX programme in 2012, we expect strong, sustainable positive cash flow in 2013 and beyond.

We commenced trial production at our new world class Vinnytsia poultry complex ahead of schedule and are now poised to accelerate production in 2013, adding at least 60,000 tonnes to our capacity in the first year of production. By 2018, we expect Vinnytsia to more than double MHP's previous 400,000 tonnes production capacity to more than 800,000 tonnes.

Our exports of chicken meat grew steadily during the year, reaching 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 well, 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.

Our objective is to carry on expanding and strengthening our leading market position, to actively continue to implement our strategy and deliver strong financial performance, whilst achieving sector leading results. We have a dedicated, stable team of professionals who understand our strategy and the steps we need to take to drive the business forward, which is a testament to the Company's investment in its staff, enabling us to capitalise on their skills and experience."

- end -

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

Date..	Tuesday, 5 March, 2013
Time	9.00 New York / 13.00 London / 15.00 Kyiv / 17.00 Moscow
Title	MHP – Q4 and FY2012 Financial Results
UK Standard International..	+44 (0) 1452 560 304
UK Free Call...	0844 871 9299
Russia Free Call	8108 002 394 2044
USA Free Call...	1866 926 5708
Conference ID	13555523

A live webcast of the presentation will be available at:

https://webconnect.webex.com/webconnect/onstage/g.php?t=a&d=665312650

Alternative URL:

https://webconnect.webex.com/

Click on "Unlisted Events"

Event number: 665 312 650

Event password: N/A

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Financial overview

In US$		*2012*	*2011*	*% change*	*Q4 2012*	*Q4 2011*	*% change*
Revenue	**US$, m**	**1,408**	**1,229**	***15%***	**364**	**349**	***4%***
IAS 41 standard gains	US$, m	17	21	*-21%*	(33)	(39)	*-15%*
Gross profit	**US$, m**	**422**	**361**	***17%***	**51**	**66**	***-22%***
Gross margin	%	30%	29%	*1 pps**	14%	19%	*(5 pps)**
Operating profit	**US$, m**	**381**	**321**	***19%***	**55**	**66**	***-18%***
Operating margin	%	27%	26%	*1 pps**	15%	19%	*(4 pps)**
EBITDA	**US$, m**	**468**	**401**	***17%***	**88**	**100**	***-12%***
EBITDA margin	%	33%	33%	-	24%	29%	*(5 pps)**
Net income	**US$, m**	**311**	**259**	***20%***	**30**	**54**	***-44%***
Net income margin	%	22%	21%	*1 pps**	8%	15%	*(7 pps)**

**pps –percentage points.*

Q4 2012 Consolidated Financial Results

Consolidated revenue of MHP amounted to US$364 million, which is 4% more than US$349 million in Q4 2011. The driver of revenue growth was an increase of chicken sales volumes.

EBITDA totaled US$88 million, by 12% less than in Q4 2011 (US$100 million) effected by decreased EBITDA in grain growing segment as well as growth of chicken meat production costs. EBITDA margin decreased from 29% to 24%.

Net income from operations decreased by 44% from US$54 million in Q4 2011 to US$30 million in Q4 2012 mostly in line with EBITDA trends and due to effect of foreign exchange gains/(losses) (US$4.9 million gains in Q4 2011 versus US$4.0 million losses in Q4 2012).

FY 2012 Consolidated Financial Results

For the full year MHP’s revenue increased by 15% to US$1,408 million (2011: US$1,229 million) as a result of higher prices of chicken meat in H1 2012 and higher volumes of externally sold grains.

In 2012, EBITDA totaled US$468 million, which was by 17% higher than in 2011 (2011: US$401 million), mostly due to increased chicken meat prices. EBITDA margin remained stable at 33%.

Net income increased by 20% from US$259 million in 2011 to US$311 million in 2012, mostly in line with EBITDA growth and due to increase in depreciation related to Vinnitsa project start-up. Net income margin increased from 21% to 22%.

Functional currency

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

	As of 31 December 2012	***Average for 2012***	***As of 31 December 2011***	***Average for 2011***
UAH/USD	7.9930	7.9910	7.9898	7.9677
UAH/EUR	10.5372	10.2692	10.2981	11.0926

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, chicken meat and grains. In 2012 the Company generated US$480 million of revenue in foreign currencies, by 36% more than US$354 million in 2011 due to increase in grain and chicken meat export sales.

US$, m	**2012**	**2011**
Sunflower oil and related products	228	222
Chicken meat and related products	113	68
Grains	139	63
Other agricultural segment products	0.4	0.5
Total export revenue	**480**	**354**

Poultry and related operations

		2012	**2011**	*% change*	***Q4 2012***	***Q4 2011***	*% change*
Revenue	**US$, m**	**1,083**	**979**	***11%***	**282**	**260**	***8%***
- Poultry and other	US$, m	867	763	*14%*	227	206	*10%*
- Sunflower oil and related products	US$, m	216	216	*0%*	55	54	*2%*
IAS 41 standard gains	**US$, m**	**12**	**3**	***349%***	**8**	**1**	***524%***
Gross profit	**US$, m**	**343**	**261**	***31%***	**75**	**76**	***-1%***
Gross margin	%	32%	27%	*5 pps**	27%	29%	*(2 pps)*
EBITDA	**US$, m**	**376**	**290**	***30%***	**90**	**88**	***2%***
EBITDA margin	%	35%	30%	*5 pps**	32%	34%	*(2 pps)*
EBITDA per 1 kg	US$	1.00	0.78	*28%*	0.89	0.99	*-10%*

* *pps –percentage points.*

Q4 2012 Poultry and related operations segment financial results

Poultry	***Q4 2012***	***Q4 2011***	*% change*
Sales volume, third parties tonnes	100,500	88,900	*13%*
Price per 1 kg net VAT, UAH	16.91	17.00	*-1%*
Sunflower oil			
Sales volume, third parties tonnes	47,900	48,200	*-1%*
Price per 1 tonne net VAT, US$	1,136	1,109	*2%*

In Q4 2012 the volume of chicken meat sales to external consumers on an adjusted-weight basis increased by 13% to 100,500 tonnes to 88,900 tonnes in Q4 2011 as a result of launch of production at Vinnytsia complex.

The average chicken meat sales price decreased slightly by 1% to UAH 16.91 per kg of adjusted weight (excluding VAT) compared to the fourth quarter of 2011 as a result of export sales increase.

The export volume of sunflower oil remained almost the same in Q4 2012 compared to Q4 2011. 47,900 tonnes of sunflower oil were sold for export at an average price of US$ 1,136 per tonne, which was by 2% more than US$ 1,109 in Q4 2011 in line with world market trends.

Revenue increased by 8% to US$ 282 million (Q4 2011: US$260 million) as a result of higher chicken sales volumes.

Higher grain prices and start-up expenses related to the commissioning into operations our new Vinnytsia complex resulted in higher chicken production costs in Q4 2012. Gross profit in Q4 2012 remained stable at US$76 million.

EBITDA increased by 2% to US$90 million (Q4 2011: US$88 million) mostly in line with gross profit increase. EBITDA margin reduced from 34% to 32%.

FY 2012 Poultry and related operations segment financial results

Poultry	**2012**	**2011**	*% change*
Sales volume, third parties tonnes	375,300	370,900	*1%*
Price per 1 kg net VAT, UAH	17.19	15.00	*15%*
Sunflower oil			
Sales volume, third parties tonnes	195,000	173,600	*12%*
Price per 1 tonne net VAT, US$	1,109	1,245	*-11%*

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

In 2012 MHP poultry sales volumes to third parties remained relatively stable, increased slightly by 1% to 375,300 tonnes compared to 370,900 tonnes in 2011. About 15% of total poultry sales volumes amounted to export sales to CIS countries as well as Asia and Africa.

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

In 2012 195,000 tonnes of sunflower oil were produced and sold for export, which is by 12% more than in 2011 due to launch of sunflower meal production at Vinnytsia complex in H2 2012 as well as a partial purchase of sunflower meal at attractive price on the market and a reduction of sunflower oil production in 2011. Average price of sunflower oil decreased by 11% from to 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 showed strong financial results driven mostly by significant growth of chicken sales price. The segment's revenue amounted to US$1,083 million, which is 11% more than US$979 million in 2011.

Poultry production costs in 2012 increased by 7% compared to 2011 mainly due to higher utilities prices, grain price increase in Q4 2012 and start-up expenses related to launch into operations our new Vinnytsia poultry complex. The gross profit was US$343 million in 2012, which is by 31% more than US$261 million in 2011, gross profit margin rose from 27% in 2011 to 32% in 2012 due to higher chicken meat prices.

EBITDA of poultry segment increased by 30% to US$376 million in 2012 (2011: US$290 million) in line with gross profit growth. EBITDA margin increased to 35% in 2012 compared to 30% in 2011.

Grain growing operations

US$		***2012***	***2011***	*% change*	***Q4 2012***	***Q4 2011***	*% change*
Revenue	**US$, m**	**169**	**104**	**63%**	**43**	**50**	**-14%**
IAS 41 standard gains	**US$, m**	**4**	**17**	**-75%**	**-42**	**-41**	**2%**
Gross profit	**US$, m**	**73**	**86**	**-15%**	**-23**	**-15**	**54%**
EBITDA	**US$, m**	**112**	**121**	**-7%**	**7**	**17**	**-60%**
EBITDA per 1 hectare	US$	*447*	*482*	*-7%*			

In 2012 MHP harvested 250,000 hectares of crops, the same as 2011 in grain growing operations and cultivated around 30,000 hectares of land in other agricultural operations. As of the end of 2012 the Company's total land bank amounted 285,000 hectares due to organic growth by approximately 5,000 hectares during 2012 (2011: 280,000 hectares). Due to challenging weather conditions the harvest of MHP decreased to 1.6 million tonnes of grains and oilseeds in 2012 compared to 1.7 million tonnes in 2011, which led to lower EBITDA in grain growing segment compared to the results of 2011.

As usual MHP's grain yields were significantly higher than Ukraine's average yields in 2012 as a consequence of the Company's operational efficiency and employment of best practice. MHP's yield of corn decreased to 7.6 tonnes per hectare in 2012 compared to 9.5 tonnes per hectare in 2011, while the yields of other grains 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, but the considerable part of grain was sold to the third parties, which constituted the revenue of grain growing segment. Revenue increased by 63% to US$169 million in 2012 compared to US$104 in 2011 due to great harvest in 2011 and large volumes of external sales of excess crops during 9M 2012 including sales of 2011 harvest crops from storages in amount of around US$ 78 as well as due to higher grain prices.

EBITDA per 1 hectare decreased by 7% from US$482 per ha in 2011 to US$447 per ha in 2012.

	2012		2011	
	MHP's average*	**Ukraine's average****	**MHP's average***	**Ukraine's average****
Corn	7.6	4.8	9.5	6.4
Wheat	5.1	2.8	5.1	3.4
Sunflower	3.0	1.7	2.7	1.8
Rapeseed	3.4	2.3	2.8	1.7
Soya	1.8	1.7	1.6	2.0

** - Tonnes per hectare, net weight*
*** - Source: the State Statistics Committee of Ukraine*

	2012		2011	
	Production, tonnes	**Cropped hectares**	**Production, tonnes**	**Cropped hectares**
Corn	883,580	116,260	1,022,783	107,750
Wheat	199,900	38,960	267,250	52,210
Sunflower	90,620	30,570	73,735	27,000
Rapeseed	42,350	12,385	25,400	9,150
Soya	24,230	13,715	18,000	11,140
Other*	367,220	38,110**	304,900	42,950**
Total:	**1,607,900**	**250,000**	**1,712,068**	**250,200**

** - Includes barley, sugar beet and other crops*
*** - Includes fallow land*

Other agricultural operations

		2012	2011	*% change*	*Q4 2012*	*Q4 2011*	*% change*
Revenue	**US$, m**	**155**	**146**	**6%**	**39**	**39**	**-1%**
- Meat processing	US$, m	103	100	3%	26	25	1%
- Other	US$, m	52	47	12%	13	14	-5%
IAS 41 standard gains	**US$, m**	**-**	**1**	**-65%**	**1**	**1**	**21%**
Gross profit	**US$, m**	**7**	**15**	**-53%**	**-1**	**5**	**-118%**
Gross margin	%	4%	10%	(6 pps)	-2%	12%	(14 pps)
EBITDA	**US$, m**	**10**	**16**	**-39%**	**1**	**5**	**-77%**
EBITDA margin	%	6%	11%	(5 pps)	3%	14%	(11 pps)

** pps –percentage points.*

Meat processing products	2012	2011	% change	Q4 2012	Q4 2011	% change
Sales volume, third parties tonnes	35,200	37,000	-5%	8,590	8,800	-2%
Price per 1 kg net VAT, UAH	22.20	20.01	11%	22.76	21.44	6%

The financial performance of other agricultural operations segment slowed down in 2012 compared to 2011 mainly as a result of losses in goose business, negative trends in fruits harvest related to challenging weather conditions.

Revenue of the segment remained relatively stable and decreased slightly by 1% to US$39 million in Q4 2012 compared to Q4 2011 and increased by 6% to US$155 million in 2012 compared to 2011.

Revenue of other operations includes sales of fruit and milk, goose meat, foie gras, beef, pork and other agricultural products.

MHP's sales prices of meat processing products demonstrated positive dynamics during 2012 because of stable demand. Average sausage and cooked meat prices rose by 6% to UAH 22.76 per kg excluding VAT in Q4 2012 and by 11% to UAH 22.20 per kg in 2012. MHP is a market leader in meat processing in Ukraine and market share of MHP remained at about 10%.

The gross profit of the segment decreased by 53% to US$7 million in 2012 compares to US$15 million in 2011 as a result of negative trends in goose and fruit businesses. EBITDA of Other agricultural operations fall by 39% to US$10 million in 2012 in line with a decline of the gross profit. EBITDA margin decreased from 11% in 2011 to 6% in 2012.

Current financial position, cash flows and liquidity

Cash Flows US$, m	2012	2011	Q4 2012	Q4 2011
Cash from operations	**384**	**323**	**88**	**115**
Change in working capital	(186)	(125)	(89)	(86)
Net Cash from operating activities	**198**	**198**	**(1)**	**28**
Cash from investing activities	(262)	(247)	(66)	(65)
Non-cash investments	(124)	(86)	(25)	(32)
CAPEX	**(386)**	**(333)**	**(91)**	**(97)**
Cash from financing activities	62	(22)	82	4
incl. Treasury shares acquisition	(41)	-	-	-
Non-cash financing	124	86	25	32
Deposits	2	126	-	-
Total financial activities	**188**	**190**	**107**	**36**
Total change in cash	**-**	**55**	**15**	**(33)**

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 to US$383.7 million in full year 2012 (2011: US$322.8 million) in line with higher EBITDA.

In 2012 the increase of 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$386 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 program.

Debt Structure

Debt	***31 December 2012***	***31 December 2011***
Total Debt US$, m	**1,140**	**898**
Cash and bank deposits	(95)	(97)
Net Debt	**1,045**	**801**
EBITDA	468	401
Debt /EBITDA	2.44	2.24
Net Debt /EBITDA	2.23	2.00

As of December 31, 2012, the MHP's total debt was US$1,140 million, most of which was denominated in US dollars. The average weighted cost of debt was below 9%. 50% of MHP`s total debt is the Eurobond, which matures in April 2015.

US$ 177 million of our long-term debt is principally represented by loans, covered by ECA; it matures at various times up to 2018. US$95 million of our debt is accounted for IFC and EBRD three year loans for financing Company's working capital needs. US$67 million represents financing for the lease of agricultural machinery and equipment used in our grain growing activities and for vehicles for distribution, and has maturities up to 2015.

As of the end of 2012, MHP had US$ 95 million in cash and short term bank deposits. Net Debt increased to US$1,045 million as of December 31, 2012 compared to US$801 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 chicken meat are denominated in US dollars, fully covering debt service expenses.

Outlook

Consumer demand for poultry meat in Ukraine remains high.

Operations at the Vinnytsia complex will gradually increase during the next three years. With more than 50% increase in production volume of poultry over this period, our sales both domestically and worldwide will grow substantially.

In pursuit of the Company's strategic and objectives, MHP will continue to develop export markets in CIS, Asia, Africa and, in the near future, in the European Union.

The first phase of the Vinnytsia complex capital expenditure program is almost complete so that in 2013 expenditure will be significantly lower than in the last two years. Most of the remaining expenditure will be related to the construction of additional rearing sites. The Company will become increasingly cash generative, creating a sound platform to continue its growth strategy.

The Company also expects to gradually increase its land bank operations.

In line with the Company's strategy of land bank expansion, members of the Board of Directors of MHP are considering the acquisition of certain farming assets in Russia, comprising around 40,000 hectares of land, over 200,000 tonnes of storage facilities and certain agricultural machinery.

The Board of Directors has authorized management of the Company to pursue negotiations relating to the acquisition and to proceed with the acquisition if there are no substantial changes to the proposed transaction.

The Board is confident that we will be able to continue to implement our strategy and keep on delivering strong financial results, cementing our position as one of the leading agri-industrial companies in Ukraine.

- End -

Notes to Editors:

About MHP

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

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

Forward-Looking Statements

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

MHP S.A. AND ITS SUBSIDIARIES
Consolidated Financial Statements

For the year ended 31 December 2012

CONTENT

STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 ....(a)

INDEPENDENT AUDITOR'S REPORT ....(i)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Consolidated statement of comprehensive income 6
Consolidated statement of financial position 7
Consolidated statement of changes in equity 8
Consolidated statement of cash flows 9
Notes to the Consolidated financial statements 11
1. Corporate information 11
2. Changes in the group structure 12
3. Summary of significant accounting policies 13
4. Critical accounting judgments and key sources of estimation uncertainty 24
5. Segment information 26
6. Revenue 28
7. Cost of sales 29
8. Selling, general and administrative expenses 29
9. VAT refunds and other government grants income 30
10. Finance costs 31
11. Income tax 31
12. Property, plant and equipment 34
13. Land lease rights 37
14. Long-term VAT recoverable, net 38
15. Biological assets 38
16. Inventories 40
17. Agricultural produce 40
18. Taxes recoverable and prepaid, net 40
19. Trade accounts receivable, net 40
20. Short-term bank deposits 41
21. Cash and cash equivalents 41
22. Shareholders' equity 42
23. Bank borrowings 42
24. Bonds issued 43
25. Finance lease obligations 44
26. Trade accounts payable 45
27. Other current liabilities 45
28. Related party balances and transactions 45
29. Contingencies and contractual commitments 46
30. Fair value of financial instruments 47
31. Risk management policies 48
32. Pensions and retirement plans 52
33. Earnings per share 53
34. Subsequent events 53
35. Authorization of the consolidated financial statements 53

STATEMENT OF THE 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 authorized 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 directors report, which is incorporated into the annual report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

Deloitte.

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated April 27, 2012, we have audited the accompanying consolidated financial statements of MHP S.A., which comprise the consolidated balance sheet as at December 31, 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 other explanatory information.

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

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

Responsibility of the réviseur d'entreprises agréé

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

Deloitte.

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. as of December 31, 2012, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law of December 19, 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, *Cabinet de révision agréé*

Sophie Mitchell, *Réviseur d'entreprises agréé*
Partner

March 4, 2013

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 11 to 53 form an integral part of these consolidated financial statements

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 11 to 53 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 11 to 53 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT 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 11 to 53 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (*continued*)
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

		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 11 to 53 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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012

(in thousands of US dollars, unless otherwise indicated)

1. Corporate information *(continued)*

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
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

Adoption of new and revised International Financial Reporting Standards *(continued)*

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[1)]	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

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
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

Biological assets and agricultural produce *(continued)*

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies *(continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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

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

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

Critical judgements in applying accounting policies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

5. Segment information *(continued)*

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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

11. Income tax *(continued)*

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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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)
Elliminated 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

12. Property, plant and equipment *(continued)*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

12. Property, plant and equipment *(continued)*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

12. Property, plant and equipment *(continued)*

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 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).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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:

	Thousand units	*Carrying amount*	*Thousand units*	*Carrying amount*	*Thousand units*	*Carrying amount*
	2012		*2011*		*2010*	
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:

	Thousand units	*Carrying amount*	*Thousand units*	*Carrying amount*	*Thousand units*	*Carrying amount*
	2012		*2011*		*2010*	
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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:

	Thousand tonnes	*Carrying amount*	*Thousand tonnes*	*Carrying amount*	*Thousand tonnes*	*Carrying amount*
	2012		*2011*		*2010*	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

19. Trade accounts receivable, net *(continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

23. Bank borrowings *(continued)*

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

24. Bonds issued *(continued)*

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 thousand10.25% 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

28. Related party balances and transactions *(continued)*

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 and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

29. Contingencies and contractual commitments *(continued)*

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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

31. Risk management policies *(continued)*

Capital risk management *(continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

31. Risk management policies *(continued)*

Liquidity risk *(continued)*

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

31. Risk management policies *(continued)*

Currency risk *(continued)*

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
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012
(in thousands of US dollars, unless otherwise indicated)

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.