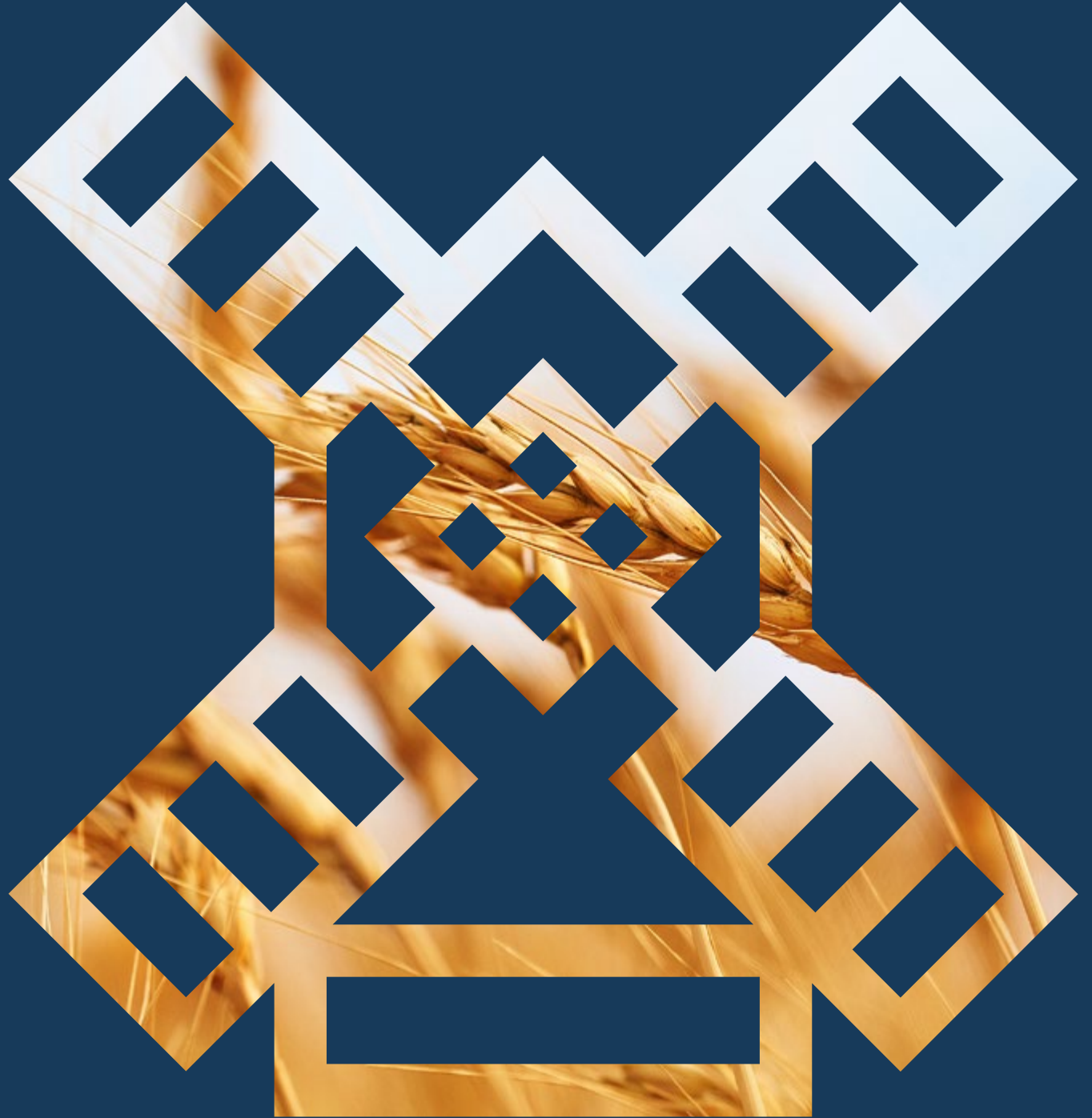




**MHP**  
AGRO & INDUSTRIAL  
HOLDING

ANNUAL REPORT  
AND ACCOUNTS  
2018

# A LEADING INTERNATIONAL AGRO-INDUSTRIAL COMPANY



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# STRATEGIC REPORT

- 4 Performance Highlights
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- 22 CEO's Statement

# PERFORMANCE HIGHLIGHTS

# FINANCIAL HIGHLIGHTS

MHP DEMONSTRATED ANOTHER YEAR OF FIRM PROGRESS

**US\$  
1,556**  
million  
**Revenue**  
(+21% y/y; 2017:  
US\$ 1,288 million)

**US\$  
924**  
million  
**Export revenue**  
(+26% y/y; 2017: US\$  
732 million)

**59%**  
of total revenue  
**Export revenue**  
(2017: 57%)

**US\$  
420**  
million  
**Gross profit**  
(+6% y/y; 2017:  
US\$ 396 million)

**US\$  
450**  
million  
**Adjusted EBITDA**  
(-2% y/y; 2017:  
US\$ 459 million)

**US\$  
128**  
million  
**Net profit**  
(-37% y/y; 2017:  
US\$ 204 million)

**US\$  
1.17**  
**Earnings per share**  
(-38% y/y;  
2017: US\$ 1.90)

**US\$  
0.7492**  
**Dividend per share**  
(2017: US\$ 0.7492)

**US\$  
550**  
million  
**8-year Eurobond  
issuance with a coupon  
of 6.95%**



# OPERATIONAL AND STRATEGIC HIGHLIGHTS

Significant progress  
on construction of

## PHASE 2 OF THE VINNYTSIA COMPLEX

three rearing sites (brigades)  
and a slaughterhouse  
launched

Construction of

## #2 BIOGAS COMPLEX

at the Vinnytsia complex with  
24 MW capacity to be reached  
within two years

Acquisition completed in  
February 2019 of

## PERUTNINA PTUJ

a leading poultry producer  
and meat-processor based in  
Slovenia



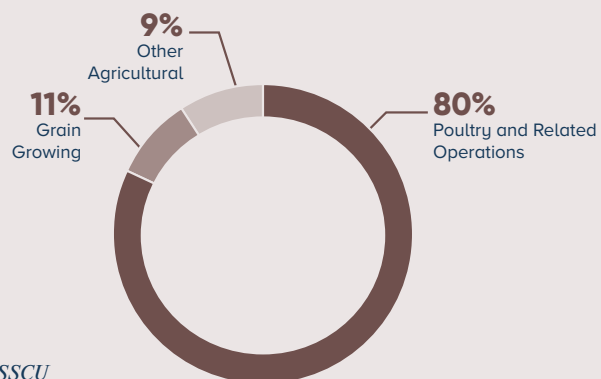
# COMPANY OVERVIEW

AN INTERNATIONAL COMPANY HEADQUARTERED IN UKRAINE, MHP IS A VERTICALLY-INTEGRATED, LEADING AGRO-INDUSTRIAL GROUP. IT IS THE LEADING DOMESTIC PRODUCER OF POULTRY PRODUCTS WITH THE HIGHEST MARKET SHARE\* AND STRONGEST DOMESTIC BRAND RECOGNITION FOR ITS PRODUCTS

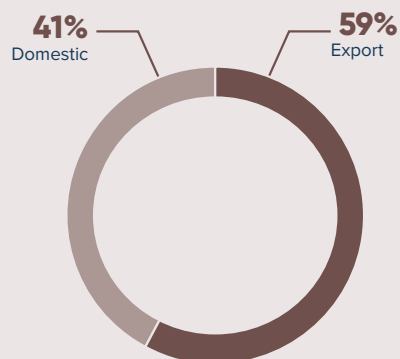
THE COMPANY'S VISION IS TO BE A WORLD-LEADING PROTEIN AGRI-BUSINESS THROUGH STEADY FINANCIAL, ECONOMIC AND OPERATIONAL GROWTH AND CONTINUOUS BUSINESS EFFICIENCIES



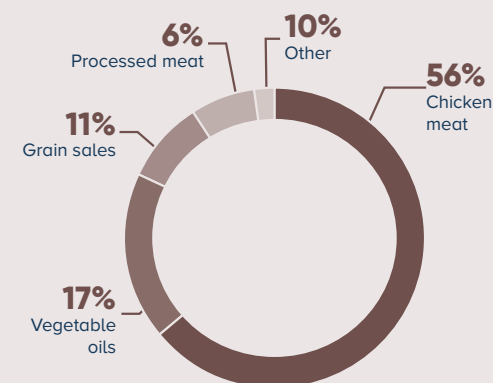
**2018 REVENUE BY BUSINESS SEGMENT**



**2018 REVENUE BY DESTINATION**



**2018 REVENUE BY PRODUCT**



\* Source: SSCU

### TARGETED INTERNATIONAL GROWTH STORY SUPPORTED BY DOMESTIC STRATEGY

MHP continues to deliver upon its targeted international growth strategy supported by a market-leading position in its domestic markets. During 2018, MHP launched its first rearing sites and a slaughterhouse line as part of Phase 2 of the Vinnytsia poultry complex. Phase 2 (260,000 tonnes of poultry meat) is expected to be operating at 100% capacity by the end of 2021. The Company also continues to actively look for potential mergers and acquisitions (“M&A”) opportunities, both in poultry production and/or in meat-processing operations in the EU and MENA regions.

### THE VERTICALLY-INTEGRATED BUSINESS MODEL MARKS MHP OUT FROM ITS PEERS

MHP’s vertically-integrated business model delivers a considerably lower cost-base\* compared to industry peers and sustainably higher earnings. MHP owns and operates modern facilities at each of the key stages of chicken production processes: grain and fodder production; egg incubation and grow-out; processing; marketing; and sales and distribution. This reduces the Company’s dependence on suppliers and farmers and also its exposure to raw material price volatility. It also enables maintenance of strict biosecurity standards throughout the entire production process and enhances quality control.

### EXPORT REVENUE NOW CONSTITUTES 59% OF TOTAL REVENUE

The Company’s expansion strategy is focussed on increasing export volumes leading to additional hard currency revenue. MHP’s export destinations now total 82 countries and its export traction is increasing following the launch of Phase 2 of the Vinnytsia poultry complex. Building out from this platform, MHP is increasing its export operations across countries in the EU, MENA and Africa. At the same time the Company is expanding its operations in the Netherlands and Slovakia, where it has cutting facilities. In the UAE, and other GCC markets, MHP is building its distribution network whilst steadily building its international brand Qualiko, already recognised by local consumers.

\*Source: MHP’s research

\*\*Source: Agroperspectiva

In February 2019, the Company completed its acquisition of Perutnina Ptuj in Slovenia. Perutnina Ptuj is an international food-processing company and the largest producer of poultry meat and poultry meat products in Southeast Europe. It has assets in Slovenia, Croatia, Bosnia & Herzegovina and Serbia.

### MHP HAS A LEADING GRAIN CULTIVATION BUSINESS

As part of its vertically-integrated business model, MHP grows corn, sunflower and soya to support its chicken production. MHP also grows 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 with yields significantly higher than Ukraine’s average”.

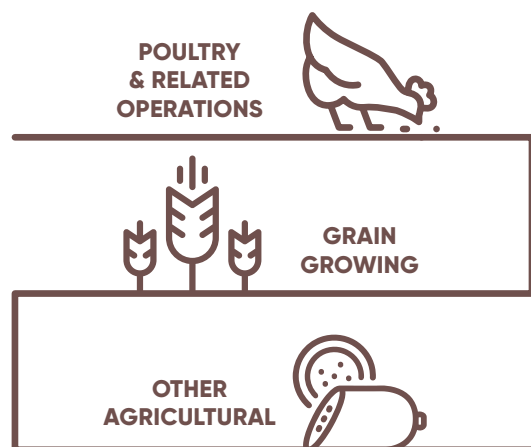
### MHP’S FACILITIES ARE AMONGST THE MOST TECHNOLOGICALLY ADVANCED

MHP’s investment and rapid growth have enabled it to employ modern production assets and the Company believes that its chicken farms are amongst the most efficient in the world. This is driven by the Company’s commitment to continuous improvement in operational efficiency, product development and innovation through investment in research & development (“R&D”).

### VINNYTSIA PHASE 2 IS EXPECTED TO BE OPERATING AT

# 100%

**CAPACITY BY THE END OF 2021**



## OUR BUSINESS SEGMENTS

The Company is organised into three business segments: Poultry & Related Operations; Grain Growing; and Other Agricultural.

## POULTRY & RELATED OPERATIONS SEGMENT

MHP is the leading poultry producer in Ukraine, accounting for approximately 30% of all industrially produced chicken meat consumed in the country in 2018\*.

MHP commands a leading market position and high brand recognition domestically with its poultry products sold at premium prices.

MHP ACCOUNTED FOR

**30%**

**OF ALL INDUSTRIALLY PRODUCED CHICKEN MEAT CONSUMED IN UKRAINE IN 2018**

\* Source: MHP

MHP brand name	Destinations for sale	Chilled / frozen	Product
Nasha Riaba	Ukraine	Chilled	Whole, parts
Ukrainian Chicken	Ukraine	Frozen	Whole, parts
Qualiko	Export (all destinations)	Chilled, frozen	Whole, parts
Ukrainian Chicken	Export (except the EU and Asia)	Frozen	Whole, parts
Assilah	Export (MENA)	Frozen	Whole
Sultanah	Export (MENA)	Frozen	Whole
Al Hassanat	Export (Iraq)	Frozen	Whole, parts
Bibilo	Export (Georgia)	Frozen	Whole

MHP supplies chicken and other meat products to a number of nationwide supermarket chains, including Fozzy, ATB-Market, Metro Cash & Carry, ECO, Novus and Auchan.

MHP also produces and sells vegetable oils (sunflower and soy-bean oils) as a by-product of its fodder production, mainly to international traders.



370,000

**HECTARES OF LAND, ONE OF THE LARGEST LAND PORTFOLIOS IN UKRAINE\***

## GRAIN GROWING SEGMENT

MHP has a leading grain cultivation business growing corn, sunflower and soybean to support the vertical integration of its chicken production. The Company is self-sufficient in corn with any excess production sold for export, providing one of the Company's sources of hard currency revenue.

Increasingly, other grains such as wheat and rape are grown for sale to both domestic and international customers. This provides a natural hedge against local currency volatility and allows for better control of poultry production costs.

In 2018, MHP's landbank constituted approximately 370,000 hectares of land, one of the largest land portfolios in Ukraine. Crop yields are well above the Ukraine average\*.

## OTHER AGRICULTURAL SEGMENT

MHP's meat-processing business is an important driver of the segment's profitability as it produces value-added products that customers are willing to pay a premium for. Processing includes the production of a wide variety of fresh meat products, prepared food and ready-to-eat food; these include sausages, cooked meats and convenience food products predominantly from chicken meat.

MHP is one of the leaders in the highly fragmented meat-processing market in Ukraine, accounting for approximately 15% of all sausage and cooked meats produced in Ukraine in 2018.

**MHP ACCOUNTED FOR**

15%

**OF ALL SAUSAGE AND COOKED MEATS PRODUCED IN UKRAINE IN 2018**

MHP brand name	Destinations for sale	Product
Bashchinsky	Ukraine	Sausages, convenience food (chilled), smoked chicken
Lehko!	Ukraine	Convenience food (frozen)
Sytni	Ukraine	Convenience food (frozen)
Qualiko	Export	Convenience food (frozen), raw marinated chicken (frozen)
Non-branded	Ukraine	Convenience food (frozen), bulk

\*Source: <https://latifundist.com/novosti/40999-nazyvany-agroholdingi-s-samym-ustojchivym-zembankom--issledovanie>

# COMPETITIVE STRENGTHS STRATEGIC



## HIGH DEGREE OF VERTICAL INTEGRATION

- Business model reduces costs by creating synergies thereby reducing per unit costs
- Reduces dependence on third-party suppliers and farmers
- Offers a strong hedge against raw material price volatility
- Enables maintenance of strict biosecurity standards throughout entire production process
- Enhances quality control

Management believes MHP is the lowest cost chicken meat producer in Ukraine and one of the lowest cost chicken meat producers worldwide\*. One of the key drivers for this efficiency is the Company's vertically-integrated business model, as well as intensive and efficient capex.

MHP owns and operates each of the key stages of chicken production processes (please see page 26 for more information on our business model). MHP has been self-sufficient in fodder and corn since 2005 and 2008 respectively, and began producing soybean protein and oil in 2015. The internal production of sunflower and soybean protein reduces dependence on third-party farmers and significantly reduces MHP's fodder production costs.

In addition, MHP's land plots are consolidated at its grain growing enterprises. This enables MHP to achieve economies of scale and supports vertical integration due to the close proximity of MHP's facilities, the efficient use of machinery and reduced transport and storage costs. Such vertical integration reduces MHP's dependence on third-party suppliers and controls its exposure to increases in raw material prices.

Vertical integration creates synergies in a number of other areas and reduces per unit costs. In addition, it allows MHP to maintain strict biosecurity and to control the quality of its inputs. This is important in an increasingly regulated industry and secures the quality and traceability of products through to the point of sale.

\*Source: MHP research



## DIVERSIFIED SALES STRATEGY – BOTH FOR EXPORTS AND DOMESTICALLY

### DOMESTIC MARKETS

- Helps broaden domestic customer base
- Helps achieve better pricing by creating a competitive balance between principal distribution channels

MHP distributes its chicken products mainly through supermarkets, hypermarkets and its network of 1,970 branded points of sale (as at 31 December 2018). It also sells some of its chicken products to meat processors, butchers' shops (independent meat shops) and foodservice businesses.

MHP supplies chicken and various other meat products to a number of nationwide supermarket chains. This makes MHP's products widely available, helping to increase sales volumes as these retailers continue to expand throughout Ukraine.

MHP believes that its diversified sales structure helps to broaden its customer base and to achieve better pricing by creating a competitive balance between its principal distribution channels.

### EXPORT MARKETS

- Targeted route-to-market strategy
- Supplemented by acquisitions
- Additional "hard currency" revenue

Since 2008, MHP has been developing and delivering upon its export strategy, growing exports to the CIS (Commonwealth of Independent States), MENA (Middle East and North Africa), the EU, Africa and Asia.

In 2018, MHP exported 286,846 tonnes of chicken meat to 82 countries, compared to 220,983 tonnes of chicken meat in 2017 to 63 countries, representing year-on year volume growth of 30%.

MHP will continue to diversify its production and marketing bases in key export markets through carefully targeted acquisitions. In addition, the Company has a clear and focussed route-to-market strategy for Europe, the GCC (Gulf Cooperation Council) and MENA regions. In keeping with this strategy, MHP established local operations in the Netherlands and the UAE in 2016, and in Slovakia in 2017.



## LEADING MARKET POSITION AND STRONG BRANDS

- Reputation for quality
- Enables realisation of economies of scale
- Competitive advantage over existing competition and potential new entrants

MHP is the leading producer of poultry products in Ukraine, with an approximate 30% share of the production of poultry for consumption in Ukraine in 2018, according to MHP's calculations.

MHP's established market position and reputation for quality enhances its ability to negotiate advantageous terms. MHP's scale helps it to realise production and marketing economies of scale and positions the Company to capitalise on the expected continued growth and development of the Ukrainian market.

MHP has strong brands in the consumer markets in which it operates and intends to continue focussing its marketing efforts on enhancing the value of its brands and expanding its customer base.



## STRONG CORPORATE GOVERNANCE

- The Company recognises the importance of strong corporate governance in line with good international practice

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The Board has adopted the UK Corporate Governance Code (“the UK Code”) as the appropriate international governance benchmark. This decision was based on the Board’s opinion that the UK Code is viewed by the investment community as a strong international governance standard. Additionally, the Board views this standard as appropriate, given the Company has had its global depository receipts (“GDRs”) listed on the GDR Main Market of the London Stock Exchange since 2008.



## CONSERVATIVE FINANCIAL POLICY AND STRONG TRACK RECORD

- The Company continues to demonstrate strong financial management and performance

---

MHP has established a strong track record in international capital markets over the past ten years, demonstrating its access to external funding to support investment as and when required. MHP has fully honoured all of its capital markets’ borrowing obligations since its debut issuance in 2007, including during the 2014 - 2016 crisis in Ukraine. This included a fully paid Eurobond in 2015 and Eurobond refinancings in 2017 and 2018.

MHP has in place a conservative financial policy, aiming to maintain a net debt to EBITDA ratio of less than 3.0x.

# GOVERNANCE AND FISCAL



## HIGHLY EXPERIENCED MANAGEMENT TEAM AND BOARD SUPPORTED BY MOTIVATED EMPLOYEES

- Considerable agro-industry and food products industry expertise
- Well-placed to identify and capitalise on future market opportunities in line with the Company's ambitions to become a global protein producer, including potential M&A
- Successful track record of deal execution furthering the Company's international expansion, including in the EU (the Netherlands and Slovakia) and the GCC

MHP's senior management team largely comprises experienced professionals who have worked closely and effectively together at the Company since 1998. Together they have over 100 years' combined agro-industry experience.

Senior management is supported by our highly skilled and knowledgeable workforce, comprising over 28,500 employees based in Ukraine and abroad. We are committed to investing in our people's development and to providing opportunities for them to realise their full potential.

Our Board has significant and varied experience in the industry and also in M&A, including the successful integration of acquisitions and change management. This depth of experience will be invaluable as we continue to implement our international growth strategy.

# INNOVATION AND TECHNOLOGY

## 7 FOCUS ON CONSUMER-DRIVEN INNOVATION

- Well-positioned to capitalise on the consumer-driven move towards healthier, higher quality food and convenience foods

MHP continues to promote and develop its strong brands through consumer-driven innovation and the introduction of new products. This enables it to both attract new customers and retain existing customers.

MHP's consumer-driven innovation addresses a shifting trend among consumers in Ukraine towards the consumption of higher quality food, as well as affording MHP flexibility in the product ranges it offers to different markets.

## 8 FOREFRONT OF INDUSTRY INNOVATION

- Development of Centre of Innovation since 2018

MHP prides itself on being at the forefront of industry innovation.

The Company has been developing a Centre of Innovation since 2018 that will lead to centres of excellence in meat science; health and nutrition; and innovative new products in value-added and shelf-stable products.

Since 2018, in partnership with IBM, the Company has been focussing on blockchain traceability, which covers: full traceability of grain production; animal welfare; commodity non-GMO compliance; and food safety issues across the whole integrated chain.



## MODERN PRODUCTION ASSETS AND TECHNOLOGY

- Enables the manufacture of high-quality products
- Enables cost savings
- Optimisation of yields in grain growing operations

MHP employs modern production assets at its various production facilities and the Management believes that MHP's chicken farms and facilities are amongst the most modern and efficient in the world.

Much of MHP's production process is automated, which ensures and promotes consistently high-quality products in a cost-effective manner. MHP sources the equipment for its chicken production facilities mainly from leading European suppliers.

Management believes that the benefits of its modern equipment and advanced technologies are reflected in MHP's favourable performance indicators, such as low chicken mortality rates and production costs.

MHP applies up-to-date farming practices supported by modern machinery in its grain cultivation business which helps optimise yields and reduce wastage and consumption of fuel.





## HIGH BIOSECURITY AND ANIMAL WELFARE STANDARDS

- Company standards are in line with Ukrainian legislation and international best practice
- Ensures animal welfare
- Enhances the Company's reputation for reliability and quality

MHP employs strict biosecurity measures throughout the poultry production process to minimise the risk of contamination and disease at its chicken production facilities.

Management believes MHP's biosecurity both complies with Ukrainian legislation and follows international best practice. MHP imposes strict hygiene standards on its branded points of

sale partners and monitors compliance through frequent random inspections. In addition, MHP complies with the high hygiene standards of its retail customers.

MHP complies with EU Animal Welfare standards and undertakes steps to improve living conditions of animals at rearing sites, following international best practice and recommendations.

# CHAIRMAN'S STATEMENT



*\* Earnings before interest, tax, depreciation and amortisation.*

## TARGETED INTERNATIONAL GROWTH STORY SUPPORTED BY DOMESTIC STRATEGY

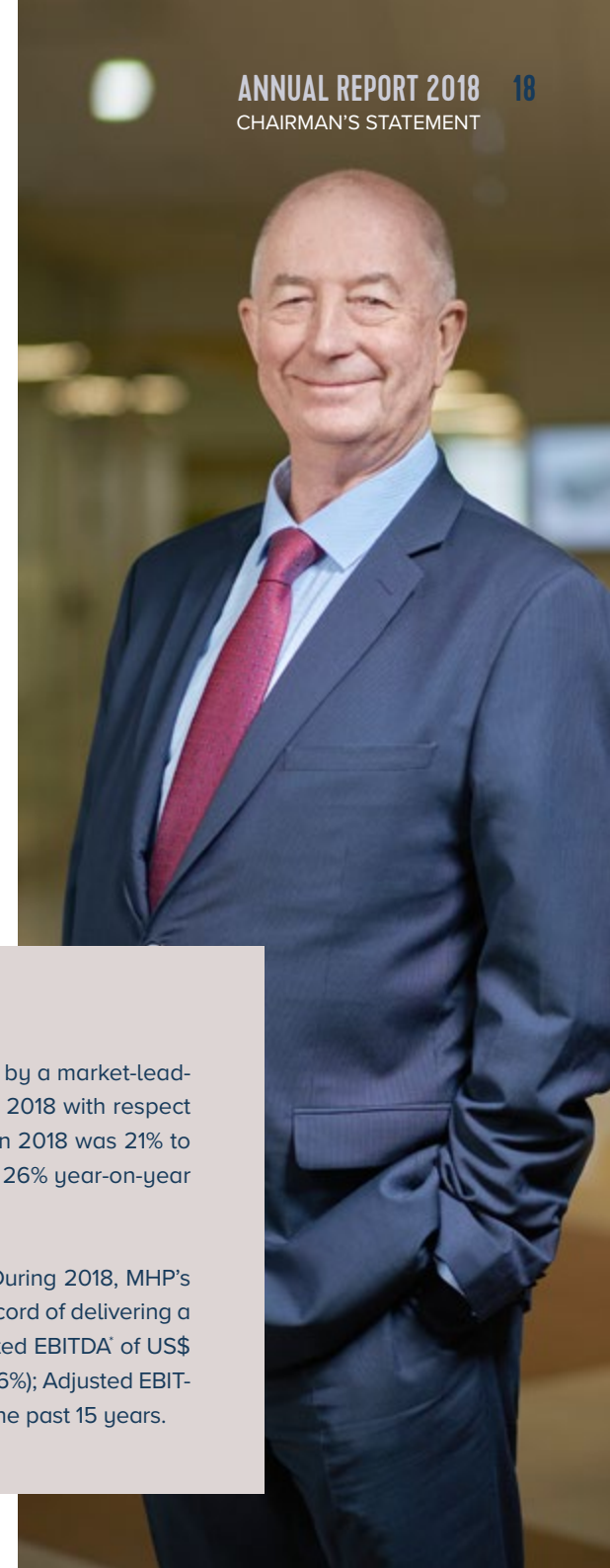
CONTINUING STRONG GROWTH IN 2018 WITH SIGNIFICANT PROGRESS ACHIEVED IN POULTRY EXPORTS VOLUMES (UP 30% YEAR-ON-YEAR) AND WITH OUR EXPORT DESTINATIONS NOW COMPRISING OVER 80 COUNTRIES (2017: 63 COUNTRIES)

The Company's international expansion was furthered in February 2019 with the completion of the acquisition of PPJ (Perutnina Ptuj, Slovenia) in the Balkans, and delivers upon our strategy to become a global protein producer. We are well-positioned to capitalise on future opportunities and will continue to actively monitor other potential M&A targets, both in poultry production and in the meat-processing industry, in Europe and in the Middle East.

### Dear Shareholder,

MHP continues to deliver on its targeted international growth strategy supported by a market-leading position in its domestic markets. The Company posted strong growth during 2018 with respect to both Ukraine domestic sales and export sales. Year-on-year revenue growth in 2018 was 21% to US\$ 1,556 million (2017: US\$ 1,288 million) with export revenue growth of around 26% year-on-year to US\$ 924 million, representing 59% of the Company's total revenue.

MHP continued to demonstrate strong financial management and performance. During 2018, MHP's vertically-integrated business model enabled the Company to maintain its track record of delivering a high profit margin in challenging market conditions. The Company reported adjusted EBITDA\* of US\$ 450 million (2017: US\$ 459 million) and an adjusted EBITDA margin of 29% (2017: 36%); Adjusted EBITDA margins have consistently been in the 26% in 2013 to 38% in 2014 range over the past 15 years.



**THE BOARD HAS  
RECOMMENDED AN  
INTERIM DIVIDEND OF US\$**

**0.7474**

**PER SHARE**

**DYNAMIC MARKETS**

2018 presented arguably the most unpredictable set of trading conditions ever seen in the global poultry industry. Sanctions implemented by the US administration have significantly affected trade flow in both meats and commodities and caused significant disparities between commodity and meat prices globally. Poultry trade flows continued to be influenced by the conditions in Brazil which have led to significant difficulties for poultry companies domiciled there and which have in turn triggered insolvencies and consolidation in the industry. In addition, changes to regulations in Saudi Arabia in relation to halal processing disrupted poultry flows to the Kingdom, the largest market in the MENA region. Elsewhere, the impact of Brexit is yet to be seen: it has the potential to have some impact on EU markets.

Global meat protein flows and prices will be further affected by the outbreak of African Swine Fever in China. This is a disease that is causing major disruption in pork production and it is likely to spread to Asia and particularly South East Asia with unprecedented consequences. The likely outcomes are higher levels of poultry consumption at higher prices.

**DELIVERING ON OUR STRATEGY**

During 2018, MHP completed its second-stage expansion of the Vinnytsia production facilities primarily dedicated to the EU, Middle Eastern and African markets. It is well on track to enable the Company to meet its target up to 840,000 tonnes of increasing overall poultry production capacity from Ukraine (including poultry by-products) in 2022e.

Our active and targeted M&A strategy that includes the EU, Middle East and United Kingdom, continues to drive MHP's international growth story. At the beginning of 2019, the Group completed the acquisition of Perutnina Ptuj, an integrated poultry company based in Slovenia that has outstanding value-add and further-processed production facilities; it is also the strongest brand\* in the region. Perutnina Ptuj has one of the largest

market shares\* in the Balkans and has sales, marketing and distribution facilities across seven countries. The acquisition will bolster MHP's processing expertise and further strengthen middle management resources and marketing abilities. One of the key tenets of our M&A strategy is the presence of high-quality management teams at our acquired companies.

The Group continued on its previously-stated long-term funding strategy with an additional bond issuance in April 2018 of US\$ 550 million with an 8-year tenor at 6.95%, well below sovereign rates.

The Company has maintained, and will continue to maintain, its net debt to EBITDA ratio below the bond covenants (3x) and the increased hard currency revenues from export sales have further increased the ability to more than fully service foreign-currency denominated debt.

**DIVIDEND**

The Board has recommended an interim dividend of US\$ 0.7474 per share, amounting to US\$ 80 million (2017: US\$ 0.7492 per share).

The Board remains committed to a dividend that maintains a balance between the need to invest in further development at the Company and the right of shareholders to share in the net profit of the Company.

**CORPORATE GOVERNANCE**

The Company recognises the importance of strong corporate governance in line with good international practice. It is conducting a programme to develop over time its already robust procedures.

As part of this process and subsequent to the migration of the registered office from Luxembourg to Cyprus, during 2018 the Company (with the support of its professional advisors) reviewed its own governance codes, related policies and terms of reference.

\* Source: 2000-2016

Based on the review's findings, the Board decided to adopt the UK Corporate Governance Code as the appropriate international governance benchmark. This decision was based on the Board's opinion that the UK Code is viewed by the investment community as a strong international governance standard. Additionally, the Board views this standard as appropriate given the Company's listing in London. MHP intends to pursue greater adoption of the UK Code's principles and provisions and has prepared a gap analysis for investors and other interested stakeholders (see page 77 of this Report).

### OUR PEOPLE

2018 marked MHP's 20th anniversary. Perhaps what marked this milestone most clearly was the enormous depth of loyalty shown by the more than 28,500 people who are employed by the Company (based both in Ukraine and abroad) demonstrating the results of years of the Company's commitment to investing in employee development. We are proud to say that the commitment of our employees underpins the foundations on which MHP's success has been built.

During 2018 the Company continued to invest in its people and the communities around its operations and to undertake a number of social projects and cooperation programmes with local universities and schools.

### BOARD DEVELOPMENTS

During the year, three new Non-Executive Directors were appointed to the Board as part of a process the Company has undertaken to develop Board independence, knowledge and skills.

Roberto Banfi was appointed to the Board as Non-Executive Director in June 2018. Mr Banfi brings with him a wealth of experience in the poultry industry, in particular in sales, marketing and distribution in the MENA and EU regions where he previously held a very senior position with BRF International (see Mr Banfi's biography on page 83).

Christakis Taoushanis was appointed to the Board as Non-Executive Director in July 2018. Mr Taoushanis has over 30 years' experience in banking in Europe and Asia (see Mr Taoushanis' biography on page 84). Following a recommendation from the Audit Committee, and with the agreement of the Board, Christakis joined the Audit Committee as of 19 March 2019.

Roger Wills was appointed to the Board as a Non-Executive Director in December 2018. Mr Wills has senior finance and M&A experience, particularly in Russia and Eastern Europe with significant experience in this field within the poultry, meat and agriculture industries. Following recommendations from both the Audit and the Nominations and Remuneration Committees, and with the agreement of the Board, Roger joined both committees as of 19 March 2019 (see Mr Wills' biography on page 85).

These recent Board appointments bring with them significant and varied experience in M&A and, importantly, in the successful integration of acquisitions and change management. This depth of experience will be invaluable as we continue to implement our international growth strategy.

William Richards stepped down from the Board in October 2018 for personal work-related reasons. I would like to thank Will for his contribution over the last year and to wish him well for the future.

As part of the continuing development programme for Board members, it was agreed that each Non-Executive Director would attend a series of relevant training sessions in the UK organised by organisations such as the Institute of Directors and the large accountancy firms. The aim of this training is to ensure that the Board is always fully conversant with the latest developments and best practice in matters including corporate governance, corporate responsibility, accounting standards and cyber security.



EMPLOYEES

### STAKEHOLDER ENGAGEMENT, LOCAL COMMUNITIES AND HUMAN RIGHTS

The conduct of all MHP's business activities is aligned with international human rights and best practice stakeholder engagement principles. The Company is supported in achieving these aims by its network of experienced advisors.

During 2018, in partnership with both IFC World Bank and the EBRD, the Company was pleased to support the appointment of independent consultants to review and develop its approach to this important aspect of its activities. The Board and the Company are keen to foster mutually beneficial cooperation with local communities and stakeholders.

### INNOVATION, RESEARCH AND DEVELOPMENT

At MHP, we pride ourselves on being at the forefront of industry innovation.

I note a few of the exciting Company developments in this area:

- **Centre of Innovation:** Since 2018, the Company has been developing a Centre of Innovation that will lead to centres of excellence in meat science; health and nutrition; and innovative new products in value-added and shelf-stable products.
- **Food traceability:** Since 2018, the Company has been focussing on blockchain traceability, which covers: animal welfare; commodity non-GMO compliance; and food safety issues across the whole integrated chain.
- **Antibiotic-free poultry company:** MHP aspires to be the first major poultry company globally to be antibiotic-free.
- **Long-term strategy to be carbon neutral:** MHP has also put in place a long-term strategy to become carbon neutral for every kilogram of poultry meat produced, another world first. Since 2018, the Company has been constructing its second and largest biogas facility (24 MW) at the Vinnytsia Poultry Complex, which will reach its full capacity in two years. This is another important step in the Company's target of becoming carbon neutral in its production of poultry meat.

MHP is committed to maintaining and continually seeking to improve its market-leading animal welfare and product quality standards. Our unique, vertically-integrated business model facilitates complete control over every stage of the production process. This enables us to maintain strict biosecurity standards encompassing animal welfare, quality control and assurance, halal certification and food safety.

### LOOKING FORWARD

2019 is expected to be turbulent in relation to global markets and trade flows, making market predictions more challenging.

Against this backdrop, MHP will continue to develop and deliver upon its long-term growth strategy. This is being achieved by two means: firstly, generating export growth, both organically, focussing on distribution and routes to market, and by targeted acquisitions; secondly, by MHP's domestic focus on higher value-added products. This gradual domestic shift to higher-margin products will be driven by the strategic substitution of lower-margin frozen chicken in favour of higher-margin consumer-driven meat product sales.

MHP continues to be well-positioned to deliver further increases in both revenue and profit in 2019, driven by increasing production, mainly from the Poultry and Related Operations segment, and by the recent acquisition of Perutnina Ptuj in the Balkans.

EXPORT GROWTH SUPPORTED BY DOMESTIC  
FOCUS ON HIGHER-MARGIN PRODUCTS

During 2018 we enjoyed another year of firm progress in terms of capacity and sales growth, at the same time as continuing to focus on putting in place the foundations for further development. I'd like to highlight in particular the solid start to the construction of Phase 2 of the Vinnytsia poultry complex with additional volumes produced and exported; the construction of the second biogas complex; and the establishment of the Centre of Innovation.

In line with our strategy of further expansion and growth outside Ukraine, we completed the acquisition of a Slovenian poultry and meat-processing company in early 2019. We have also been successfully developing our international projects in Slovakia, the Netherlands, and GCC.

MHP has continued to demonstrate itself to be a strong and profitable company underpinned by its vertically-integrated business model and driven by its low-cost leadership position, adherence to high standards, drive for innovation and intensive investment programme, strong management team and talented employees.



## MARKETS AND ENVIRONMENT

Our stakeholders will be aware that, particularly in recent years, the geopolitical and macroeconomic situations in Ukraine have been improving. In particular, Ukraine is experiencing annual GDP growth of around 2.5-3.0%, as well as enjoying the relative stability of its currency and the continued development and investment into a number of industries, especially that of agriculture.

## PERFORMANCE HIGHLIGHTS IN 2018

During the year, we consolidated our position as the leading industrial producer of chicken meat in Ukraine. Total poultry sales increased by 11% year-on-year to around 593,000 tonnes, with sales in Ukraine remaining stable.

We continued to execute upon our strategy of diversification of sales. Poultry exports increased by 30% year-on-year and the number of countries to which we export our poultry increased from 62 to over 80. Growing our international reach remains a strategic imperative for MHP and in 2018 we exported around 286,846 tonnes of poultry meat mainly to the EU, MENA and Africa. Poultry exports constituted around 48% of total poultry sales volumes (2017: 41%).

Our financial results were in line with Management expectations, with adjusted EBITDA of US\$ 450 million (2017: US\$ 459 million) and an adjusted EBITDA margin of 29% (2017: 36%). Exports of poultry, oils and grains generated a further increase in hard currency revenues to US\$ 924 million (2017: US\$ 732 million), thereby growing the proportion of hard currency revenue from 57% to 59% of total Group revenue.

## BUSINESS REVIEW

MHP made significant progress on several fronts during the year:

- **Efficient production growth.** Our production facilities across all of our business segments continued to operate

at full capacity. Production at our Poultry & Related Operations segment increased by an additional 30,000 tonnes due to the launch of Phase 2 of the Vinnytsia poultry complex and brought us additional hard currency revenues.

Our Grain Growing segment showed outstanding results both in terms of yields, with a record harvest of corn of 10.9 t/ha in net weight, and in terms of adjusted EBITDA per ha (US\$ 416 compared with US\$ 267 in 2017), thereby demonstrating MHP's leadership position within our peer group in Ukraine.

Our Other Agricultural segment has continued to expand its range of value-added products to satisfy consumer demand and taste, showing positive results in sales.

- **Future growth: Ukraine and international expansion.** In line with our strategy, we will continue to grow both domestically in Ukraine and in export markets. The capacity increase at the Vinnytsia poultry complex is expected to be our main driver of growth over the next 3-5 years and will result in an increase in overall poultry production capacity to around 840,000 by 2022e (compared with 617,943 tonnes in 2018).

The next major step in our expansion strategy is to successfully integrate and subsequently develop our recently acquired company in Slovenia, Perutnina Ptuj. Perutnina Ptuj's current annual poultry production capacity constitutes around 80,000 tonnes and it sells this produce into 22 EU countries. This company will provide a platform for further development and opportunities in the EU with further capacity expansion planned over the next 3-5 years.

We will also continue to monitor and explore potential M&A opportunities, in particular in Europe and MENA, and to develop export market opportunities worldwide from our cutting facilities in the EU and our sales & distribution office in UAE.

- **Eurobond issue.** In April 2018, MHP successfully completed a Eurobond transaction involving the repurchase of US\$ 416 million Eurobonds 2020 and issue of a new US\$ 550 million 8-year Eurobond with a coupon of 6.95%.
- **Our people and their development.** It is important for me and for the Company that we work together and share our success with talented, innovative, strong, self-motivated, smart, experienced people, who strive to achieve new, different and ambitious goals. We are committed to maximising opportunities for the people working with us and we have in place a number of programmes to further this goal. Our "New Horizons" programme delivers remote training and also enabled us to update our assessment process. As we seek to recruit the best new people to the Company, we focus, amongst other things, on identifying those demonstrating drive and an entrepreneurial spirit and approach. Our search is helped significantly by our "MHP Start" project for university students.
- **Communication with stakeholders.** MHP has an ongoing programme of cooperation with our main stakeholders – employees, partners (clients), local communities and investors. Our employees are residents of the villages and cities where the Company operates meaning that we are in constant collaboration with local communities. We have been focussing our efforts on the principles of sustainable development and partnership, engaging local communities in joint projects. Working together, we are able to improve the quality of life within communities and regions, ensuring the sustainable development of both MHP and Ukraine. We produce quality products for our partners (clients) and invest in new equipment and new technology in compliance with international standards.

**STRATEGY AND PRIORITIES FOR 2019**

Our strategy can be found in the Management Report on page 96.

However, I'd like to take the opportunity here to draw out a few tenets of that strategy and with that, to highlight some of our priorities for the year:

- to continue our focus on exports, cementing our position in existing territories and exploring and capitalising on new opportunities;
- to continue to investigate potential targeted acquisitions and joint ventures, both in Europe and the MENA regions;
- to maintain our investment in people and build on our reputation as a high-quality, responsible and transparent employer; and
- to promote the sustainable development of the business, with a particular focus on our environmental impact (including alternative energy projects), animal welfare and corporate responsibility.

**OUTLOOK**

In 2019, I expect MHP to continue to strengthen its position as a leading international agro-industrial company with good growth visibility in both domestic and international markets.

I am confident that our strategy will continue to generate sustainable growth enabling us to deliver strong operational and financial performances in 2019 and beyond.

Yuriy Kosyuk,  
CEO and founder of MHP  
1 April 2019

**INCREASING TOTAL  
POULTRY PRODUCTION  
LEVELS TO AROUND**

**840,000**

**TONNES PER YEAR BY 2022e**





# BUSINESS REVIEW

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# BUSINESS MODEL

OUR VISION — TO BE A WORLD-LEADING  
PROTEIN AGRI-BUSINESS THROUGH STEADY  
FINANCIAL, ECONOMIC AND OPERATIONAL  
GROWTH AND CONTINUOUS BUSINESS  
EFFICIENCIES

# OUR BUSINESS MODEL



## HOW WE GENERATE REVENUE

### POULTRY & RELATED OPERATIONS SEGMENT

We produce and sell chicken meat (fresh and frozen); vegetable oils (sunflower and soybean); and mixed fodder

**US\$ 1,241**  
million revenue  
**617,943**  
tonnes of poultry  
produced

### GRAIN GROWING SEGMENT

We grow crops for fodder production and for sale to third parties

**US\$ 181**  
million revenue  
**2,654,422**  
tonnes of crops  
produced

### OTHER AGRICULTURAL SEGMENT

We produce and sell sausage and cooked meat; convenience foods; and produce from cattle and milk operations

**US\$ 134**  
million revenue  
**51,547**  
tonnes of meat  
products produced

## HOW WE CREATE VALUE

### SUSTAINED INVESTMENT IN CAPEX AND R&D

Our sustained CAPEX and R&D programmes have enabled consistent production expansion, rigorous cost control, developed and maintained product quality, and ensured high standards of product safety.

### MARKETPLACE

We are always looking to expand into new markets for our products and now sell our products to over 80 countries.

### INNOVATION

We look for dynamic and innovative ways of developing our production and agricultural processes to improve efficiency, drive down costs and reduce our environmental impacts.

### LONG-TERM CASH AND REVENUE GENERATION

Our businesses have a consistent track record of revenue and cash generation providing a solid platform for value creation.

## OUR ASSETS

### OUR PEOPLE

We have a highly skilled and knowledgeable workforce, an experienced management team and we are committed to continuously investing in training and development.

### VERTICALLY-INTEGRATED STRUCTURE

Our structure differentiates us from our peers, and enables us to reduce our dependence on third-party suppliers and our exposure to raw material price volatility. It also ensures the maintenance of strict biosecurity standards throughout the production process.

### MODERN AND EFFICIENT PRODUCTION ASSETS

Our investment has enabled us to employ modern production assets and the Company believes that its chicken farms are amongst the most efficient in the world.

### STRONG BRANDS

Our brands have a high degree of domestic recognition with a reputation for quality, enabling products to be sold at premium prices.

# WHAT

**MHP'S GRAIN PRODUCTION SATISFIES ALL OF THE COMPANY'S CORN REQUIREMENTS.**

We control approximately 370,000 hectares of land in Ukraine (long-term lease) with a harvest of >2.5 million tonnes per annum.



**WE USE CRUSHING TECHNOLOGY FOR PRODUCING PROTEIN FROM SUNFLOWER SEEDS/SOYA EXTRACTION.**

The US\$ exports of cakes, oils and granulated husk provide a natural hedge.



**ALL MHP'S QUALITY CONTROLLED FODDER IS GMO-FREE AND PRODUCED AT MHP'S THREE FODDER MILLS (2018: 1.66 MILLION TONNES).**

MHP has 1.6 million cubic metres of grain storage facilities.



# WE DO

## GRAIN GROWING



**ALL THE MANURE AND HUSKS PRODUCED BY MHP'S ACTIVITIES ARE USED IN BIOGAS PRODUCTION.**

## BIOGAS

## SUNFLOWER AND SOYBEAN PROTEIN PRODUCTION

A 5 MW project is complete and a 24 MW project is under construction. The first stage of that project, a 12 MW plant, which will be launched in the middle of 2019, the work enabling enhanced environmental management and control. The project demonstrates the Company's commitment to reducing greenhouse gas emissions and robust environmental management.

## FODDER PRODUCTION

**40% OF POULTRY IS SOLD VIA BRANDED OUTLETS.**

Approx. 1,970 dedicated outlets.



## RETAIL

**100% OF DOMESTIC POULTRY DELIVERED TO CUSTOMERS WITHIN 24 HOURS.**

MHP has a fleet of around 400 vehicles and 11 distribution centres in Ukraine.



## DISTRIBUTION

**PRODUCTION OF MEAT-PROCESSING PRODUCTS WITH GROWING MARKET SHARE OF VALUE-ADDED PRODUCTS.**



## MEAT-PROCESSING

**100% OF POULTRY GROWN AND PROCESSED AT OWN FACILITIES.**

3 vertically-integrated poultry complexes, from hatching to rearing and processing, managing 6.6 million heads per week. Compliance with EU Animal Welfare standards and production standards at all stages of the process.



## POULTRY PRODUCTION

**100% SELF-SUFFICIENCY IN HATCHING EGGS.**

2 breeding farms with around 459 million hatching eggs produced in 2018.

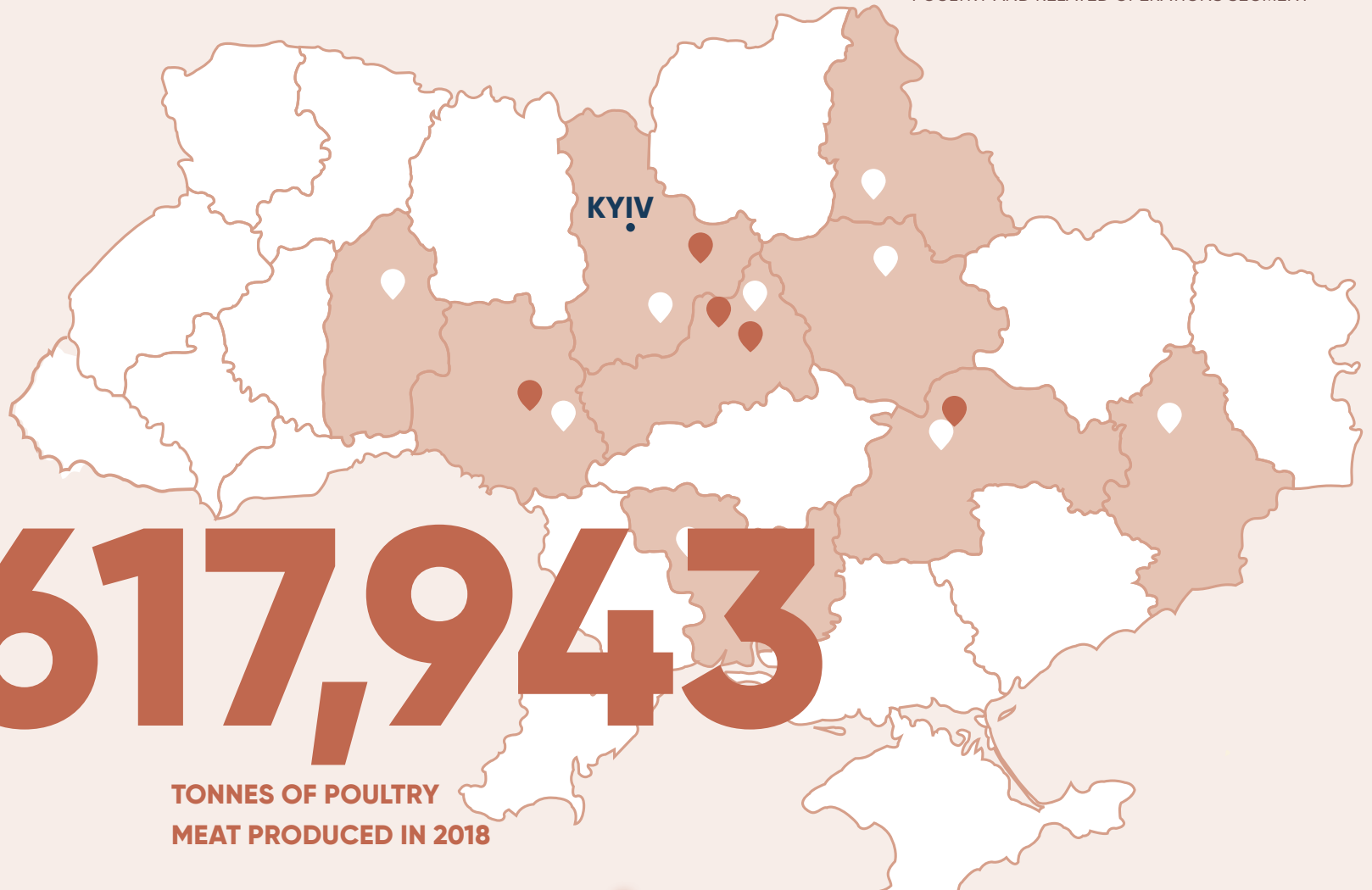


## HATCHING EGGS

# POULTRY AND RELATED OPERATIONS SEGMENT

# 617,943

TONNES OF POULTRY MEAT PRODUCED IN 2018



**POULTRY**

- Vinnytsia Poultry Complex (greenfield, broiler)
- Myronivka Poultry Complex (greenfield, broiler)
- Oril Leader (broiler complex)
- Starynska Nova (breeding complex)
- Peremoga Nova (breeding complex)

**FODDER COMPLEXES AND ELEVATORS**

- Vinnytsia Fodder Complex (fodder plant, crushing plant, silo)
- Myronivka Fodder Complex (fodder plant, crushing plant, silo)
- Katerynopil Fodder Complex (fodder plant, crushing plant, extraction plant, silo)
- 11 elevators

## KEY OPERATIONAL DATA

	2018	2017	% change
<b>POULTRY</b>			
Production volume, tonnes	617,943	566,242	9%
Sales volume, third party tonnes	593,527	532,727	11%
Export sales volume, third party tonnes	286,846	220,983	30%
Price per 1 kg net of VAT, UAH	39.86	35.63	12%
<b>SUNFLOWER OIL</b>			
Sales volume, third party tonnes	315,079	311,393	1%
<b>SOYBEAN OIL</b>			
Sales volume, third party tonnes	50,044	27,282	83%

## KEY FINANCIAL DATA

in mln. US\$, unless indicated otherwise	2018	2017	% change
<b>REVENUE</b>	<b>1,241</b>	<b>1,051</b>	<b>18%</b>
• Poultry and other	973	795	22%
• Vegetable oil	268	256	5%
<b>IAS 41 STANDARD GAINS/(LOSSES)</b>	<b>(1)</b>	<b>29</b>	<b>-103%</b>
<b>GROSS PROFIT</b>	<b>301</b>	<b>311</b>	<b>-3%</b>
Gross margin	24%	30%	-6 pps*
<b>ADJUSTED EBITDA</b>	<b>311</b>	<b>367</b>	<b>-15%</b>
Adjusted EBITDA margin	25%	35%	-10 pps
Adjusted EBITDA per 1 kg (net of IAS 41)	0.53	0.64	-17%

\* pps — percentage points



# PHASE 2

## OF THE VINNYTSIA POULTRY COMPLEX NOW IN OPERATION

### PRODUCTION

MHP is a long-term growth story with export growth supported by a domestic focus on higher-margin products (e.g. boneless chicken thigh meat).

Chicken meat is produced at MHP's Ukraine-based facilities in four principal stages: production of hatching eggs; hatching; grow-out; and processing. MHP's chicken production facilities include three principal chicken broiler complexes, two breeding farms and three fodder complexes.

MHP continues to invest in Ukraine. In Q2 2018, MHP launched the Phase 2 production sites at the Vinnytsia Poultry Complex ("the Complex") including three rearing sites (brigades) and a slaughterhouse. Utilisation of this new capacity has been increasing gradually during H2 2018.

Other poultry production facilities continued to operate at full capacity during the period.

In 2018, MHP's chicken farms produced 617,943 tonnes of chicken meat (2017: 566,242 tonnes), 9% higher volumes year-on-year due to the rearing of chickens of a greater average weight, decreased levels of thinning and the launch of new rearing sites at Phase 2 of the Complex.

Over 87% of MHP's poultry was produced at the Company's greenfield facilities — the Vinnytsia and Myronivka poultry complexes.

The fodder complexes include three sunflower crushing plants, one soybean extraction plant, and storage facilities for 1,590 million m<sup>3</sup> tonnes of grain. Approximately 694,395 tonnes of grain can be stored in plastic bags.

MHP produces an extensive range of chicken products, primarily chilled and some frozen. These products have industry-leading hygiene and safety records and there have been no material incidents of this type in recent years. MHP is constantly looking to enhance its product quality and has a long-term aim to be an industry leader in the reduction of saturated fat levels in its poultry products.

### POULTRY SALES AND PRICES

MHP's competitive strengths include its leading market position and high brand recognition domestically with poultry products sold at premium prices. Sales of chilled chicken products are made direct to retailers (including supermarkets), branded partnership networks, food service customers (hotel, restaurant and cafeteria operators, or "HoReCa") and producers of processed meat products. Substantially all of MHP's chilled chicken products are sold under the "Nasha Riaba" brand. 11 Ukrainian distribution centres ensure the efficient delivery of fresh poultry products to customers.

# 87%

**OF MHP'S POULTRY WAS  
PRODUCED AT THE COMPANY'S  
GREENFIELD FACILITIES**

# 30%

**INCREASE YEAR-ON-YEAR IN  
POULTRY EXPORT SALES  
IN 2018**

In 2018, MHP sold 52% of its poultry products in Ukraine and 48% for export. Total poultry sales in 2018 increased by 11% to 593,527 tonnes (2017: 532,727 tonnes) driven predominantly by the export growth strategy.

MHP's domestic sales growth is in line with the broader local market. Annual poultry sales in the domestic market (both fresh and frozen) remained relatively stable year-on-year and this steady domestic poultry market provides good earnings visibility.

The average chicken meat price increased 12% year-on-year to UAH 39.86 per kg excluding VAT. This year-on-year price increase was mainly driven by export price growth as a result of product mix optimisation undertaken by the Company in line with its export strategy, as well as an increase in fresh poultry prices in Ukraine.

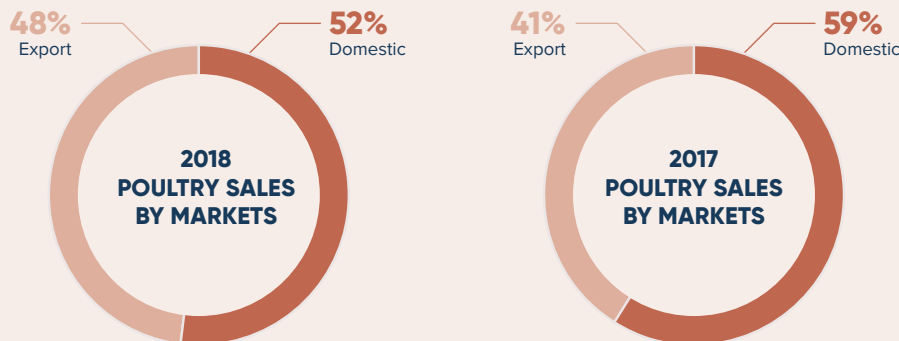
In US\$ terms, average MHP poultry prices in 12M 2018 increased by 9% year-on-year.

**POULTRY EXPORTS**

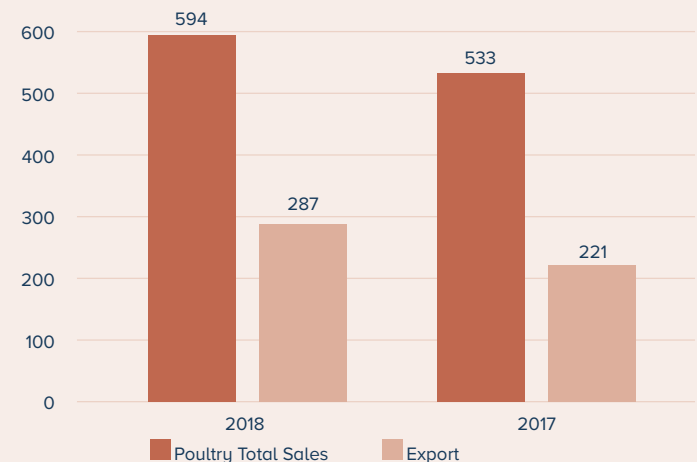
MHP's strategy for export operations focusses on the diversification of sales and on market targeting – delivering the right products to the right markets.

During the last four years, the Company has significantly grown its export of frozen and fresh chicken products primarily to the GCC, the EU, Africa and Asia. In 2018, poultry exports increased by 30% to 286,846 tonnes (2017: 220,983 tonnes). This was driven by significant exports in H2 2018, mainly to Saudi Arabia, Slovakia, Iraq and the Netherlands. Out of total poultry sales volumes, poultry exports constituted around 48% in 2018 (2017: 41%), with exports to 82 countries in 2018 (2017: 63 countries).

**DOMESTIC AND EXPORT POULTRY SALES SHARE**



**POULTRY: TOTAL AND EXPORT SALES VOLUMES ('000 TONNES)**





# POULTRY EXPORT MARKETS

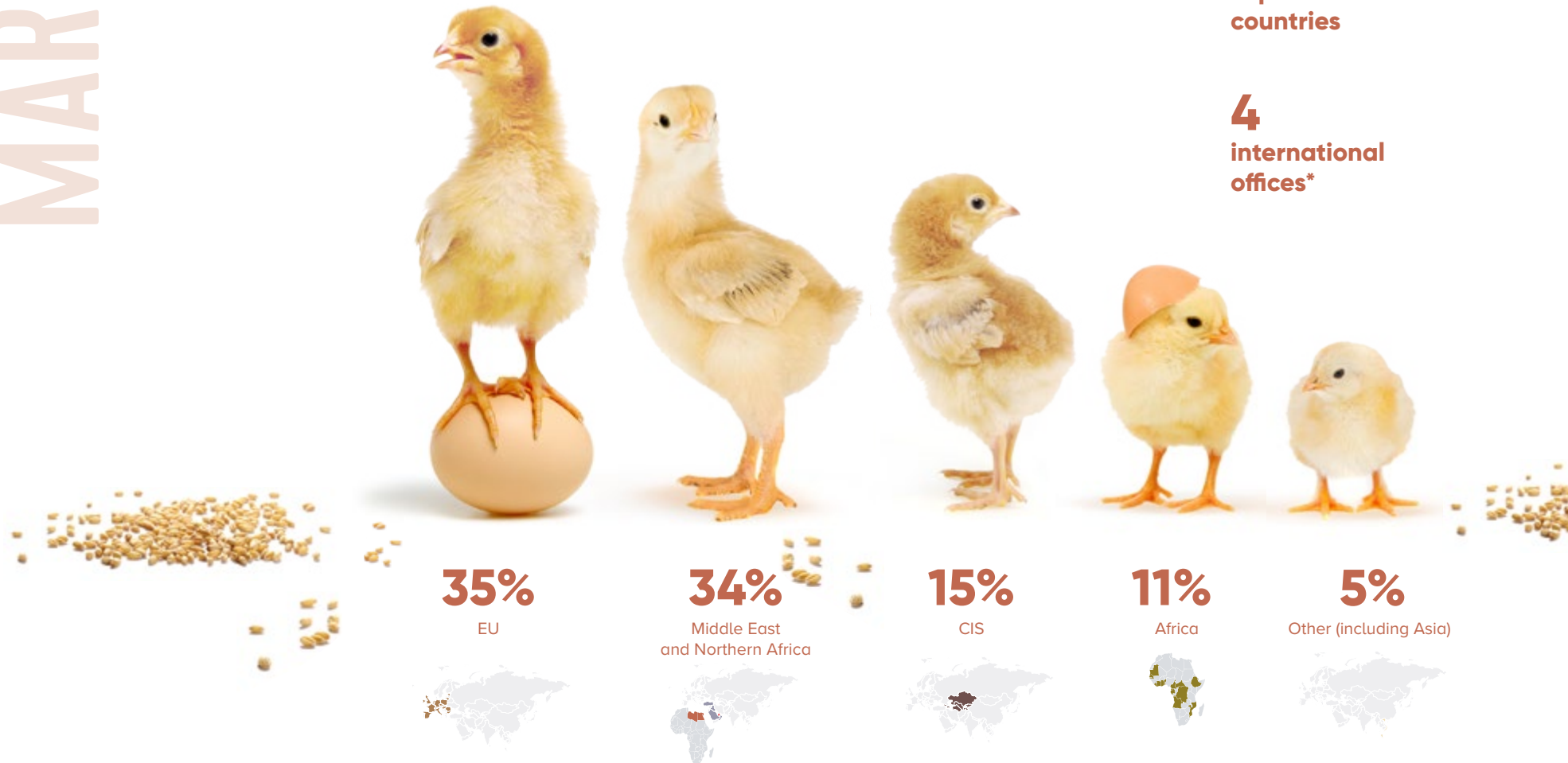
IN 2018 MHP'S STRATEGY OF DIVERSIFICATION AND MARKET TARGETING DROVE A 30% YEAR-ON-YEAR INCREASE IN POULTRY EXPORT VOLUMES

**286,846**  
tonnes of chicken  
meat exports

**82**  
export  
countries

**4**  
international  
offices\*

EXPORT VOLUMES (TONNES) OF CHICKEN MEAT BY REGION IN 2018



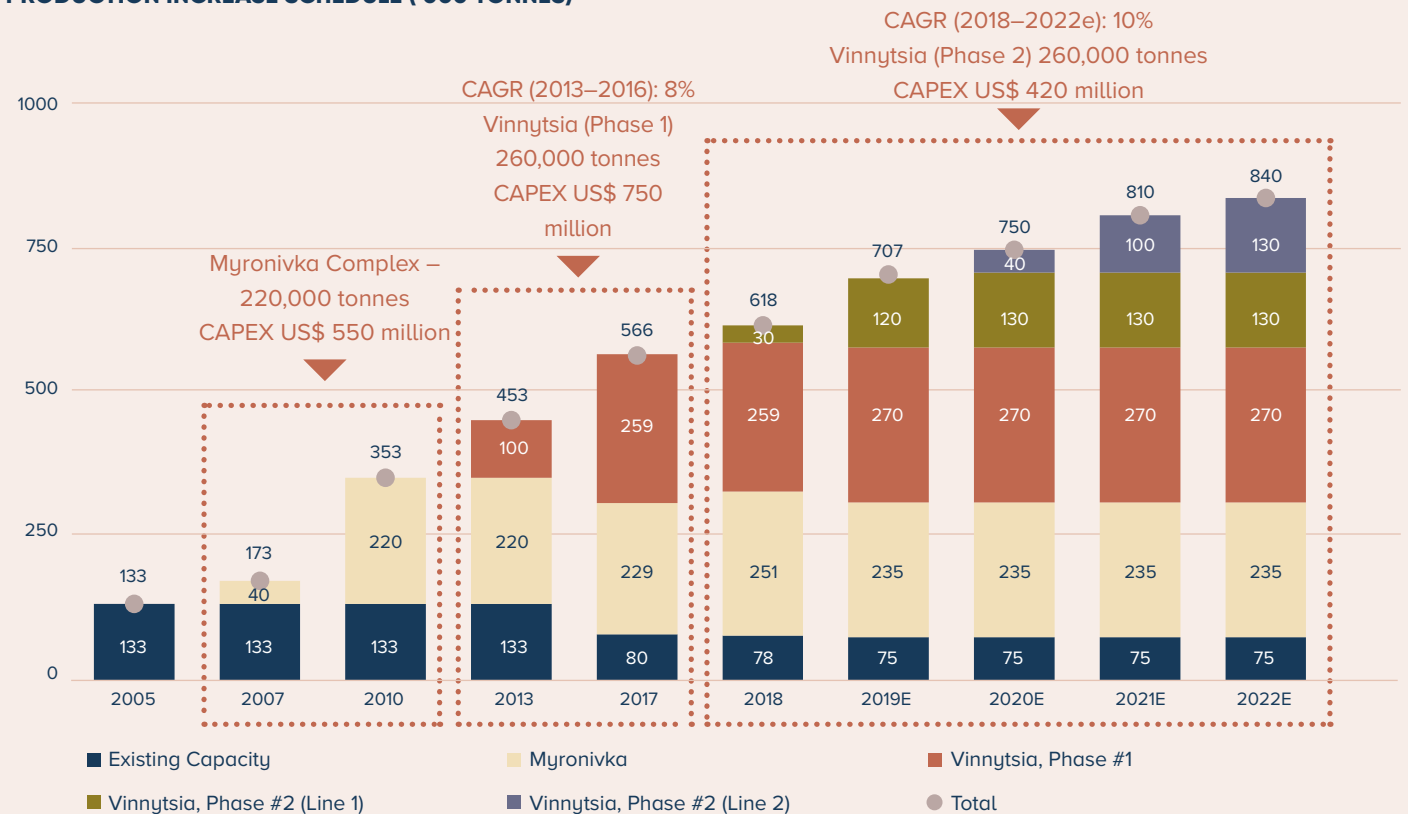
\*Slovakia, the Netherlands, UAE and Slovenia (since February 2019)

**FUTURE GROWTH**

MHP is progressing with the construction and launch of production sites at the Vinnytsia poultry complex in line with the Company's investment plan. When finished, this second phase of Vinnytsia will comprise two lines delivering an annual chicken meat capacity of 260,000 tonnes and increasing MHP's overall annual poultry production capacity to an expected 840,000 tonnes by 2022e.

MHP has been constructing the first phase of its alternative energy biogas plant during 2018 with a launch expected in the middle of 2019. This first phase has an annual capacity of 12 MW per annum: the plant is expected to reach an annual capacity of 24 MW within two years, two phases. This biogas plant is core to the Vinnytsia project.

**PRODUCTION INCREASE SCHEDULE ('000 TONNES)**



840

**THOUSAND TONNES POULTRY PRODUCTION CAPACITY BY 2022e**

POULTRY BRANDS



**NASHA RIABA**

- Ukraine
- Chilled
- Whole, parts
- MHP ownership



**QUALIKO**

- Export (all destinations)
- Chilled, frozen
- Whole, parts
- MHP ownership



**ASSILAH**

- Export (except the EU and Asia)
- Frozen
- Whole, parts
- MHP's ownership



**AL HASSANAT**

- Export (Iraq)
- Frozen
- Whole, parts
- Partner ownership



Ukrainian Chicken®

**UKRAINIAN CHICKEN**

- Ukraine
- Frozen
- Whole, parts
- MHP ownership

**UKRAINIAN CHICKEN**

- Export (except the EU and Asia)
- Frozen
- Whole, parts
- MHP ownership



**SULTANAH**

- Export (except the EU)
- Frozen
- Whole, parts
- MHP ownership



**BIBILO**

- Export (Georgia)
- Frozen
- Whole
- Partner ownership

# 1,661

**MILLION TONNES OF MIXED  
FODDER PRODUCTION IN 2018**

## FODDER PRODUCTION

The fodder conversion rate at a chicken farm depends largely on the quality and composition of the meal. MHP produces its own mixed fodder at three mills using agricultural commodities including corn, sunflower and soybean. These mills support the Poultry and Related Operations segment with an aggregate annual mixed fodder production in 2018 of approximately 1,661 million tonnes (2017: 1,525 million tonnes).

The key operational processes at the fodder mills include purchasing ingredients (mainly from MHP's grain growing enterprises), weighing and conducting laboratory analysis of ingredients, manufacturing, including laboratory analysis of fodder, and delivery to MHP's breeding and chicken farms. A wide variety of fodder types are produced with various vitamin and protein contents meeting the age requirements and covering the needs of chickens at the breeding and chicken farms. All fodder produced by MHP is granulated and ingredients are thoroughly mixed so that the components are dispersed throughout the meal. A proportion of granulated fodder is crushed so that it can be fed to younger chickens. To ensure freshness and quality, MHP transports the meal to its chicken and breeder farms on its own trucks.

MHP is fully self-sufficient in corn for fodder production. Since the launch of the soybean oil extraction plant at the Katerynopil complex, 40% of the soybean protein requirements come from MHP's own harvest. The use of contemporary crushing technology to extract a substantial amount of sunflower protein meal means that 22% of the Company's sunflower seed requirement now comes from the Company's own crops.

## SALES OF VEGETABLE OIL

Vegetable oil is a by-product of fodder production, specifically sunflower and soybean oil. MHP views vegetable oil exports as one of the "natural hedge" routes to accumulating hard currency revenues, protecting the Company from local currency volatility. MHP's sales of sunflower oil in 2018 remained stable and constituted 315,079 tonnes (2017: 311,393 tonnes) as a result of changes in delivery terms and increased stocks of sunflower oil, which will be sold in Q1 2019. Sales of soybean oil increased substantially by 83% to 50,044 tonnes in 2018 from a low base in 2017 (2017: 27,282 tonnes) partly as a result of pushing a contract for approx. 6,000 tonnes of oil from Q4 2017 into January 2018. MHP also sells soybean cake to third parties.

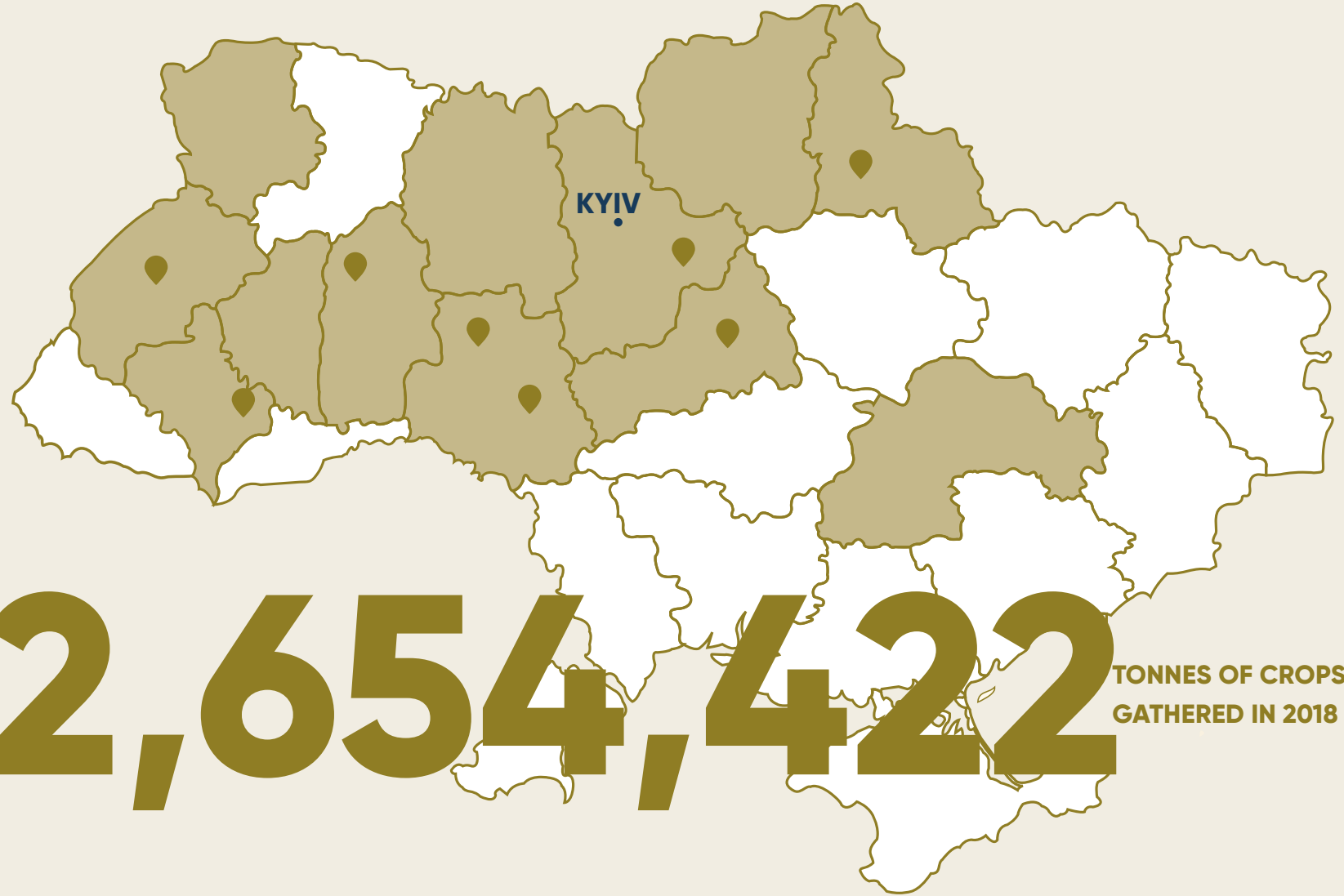
In 2018, all MHP's vegetable oils were sold through international traders to export markets, generating total revenues of US\$ 274 million (2017: US\$ 256 million).

In addition to oil production, which is a by-product, the boiler houses at our fodder plants burn sunflower husks to make steam used in the production of mixed fodder. This not only reduces the Company's requirements for natural gas but also its overall production costs. In addition, husks are recycled as bedding at its chicken production facilities, once again enabling MHP to reduce its production costs and improve the biosecurity of its operations.

## SALES OF SOYBEAN OIL INCREASED YEAR-ON-YEAR BY

# 83%

# GRAIN GROWING SEGMENT

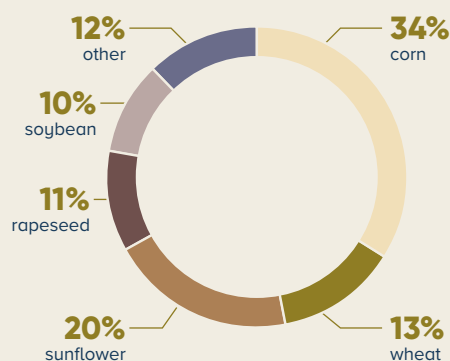


● **MHP'S LARGEST GRAIN GROWING SITES (BY AREA)**

- Zernoproduct
- Urozhay
- Zakhid-Agro
- Urozhayna Kraina
- Ridny Kray
- Perspective
- Agro-S
- Agrokryazh

**362,820**  
HECTARES OF LAND  
HARVESTED IN 2018

**% OF CROPPED AREA:**



MHP's yields are consistently amongst the highest in Ukraine and are higher than Ukraine's average (source: MHP, Agroperspectiva).

	2018		2017	
	MHP's average*	Ukraine's average**	MHP's average*	Ukraine's average**
Corn	10.9	7.8	7.3	4.9
Wheat	6.1	3.7	6.0	4.2
Sunflower	3.2	2.3	3.0	2.1
Rapeseed	3.3	2.7	3.3	2.9
Soya	3.0	2.6	2.1	1.9

\* Tonnes per hectare

\*\* MHP yields are net weight, Ukraine – bunker weight

**KEY FINANCIAL DATA**

in mln. US\$ unless indicated otherwise	2018	2017	% change
<b>REVENUE</b>	<b>181</b>	<b>117</b>	<b>55%</b>
IAS 41 standard gains/(losses)	33	(12)	+375%
<b>GROSS PROFIT</b>	<b>108</b>	<b>66</b>	<b>64%</b>
<b>ADJUSTED EBITDA</b>	<b>151</b>	<b>95</b>	<b>59%</b>
Adjusted EBITDA per hectare	416	267	56%

**GRAIN GROWING FACILITIES**

As at 31 December 2018, MHP leased approximately 370,000 hectares of land at its eight principal grain growing facilities. These facilities cultivate corn, sunflower and soybean to support the Company's Poultry and Related Operations segment. Increasingly other grains, such as wheat and rapeseed, are grown for sale to third parties.

In 2018, the Company's grain growing operations harvested around 362,820 hectares of land and gathered 2,654,422 tonnes of crops, which is around 33% higher than in 2017 mainly due to a strong harvest of corn of 10.9 tonnes per hectare, a record for MHP.

As at the beginning of 2019, MHP has around 94,000 hectares under winter crops, of which around 50% is sown with winter wheat and 41% with winter rapeseed. All winter crops are in good condition.

**HARVEST CAMPAIGN RESULTS**

	Production, tonnes		Cropped hectares	
	2018	2017	2018	2017
Corn	1,344,547	893,149	123,398	121,908
Wheat	295,640	293,765	48,379	48,676
Sunflower	235,245	205,079	72,981	68,931
Rapeseed	125,346	104,782	38,541	31,968
Soya	114,322	82,793	37,558	39,684
Other'	539,322	419,527	41,963	44,913
<b>TOTAL:</b>	<b>2,654,422</b>	<b>1,999,095</b>	<b>362,820</b>	<b>356,080</b>

\* Including barley, rye, sugar beet, sorghum and other crops and excluding land left fallow as part of crop rotation.

**EXPORT SALES OF CROPS FROM  
THE TOTAL HARVEST IN 2018 WAS****18%**

Most of the corn, wheat, soybean and sunflower produced by MHP are used at the Company's own fodder production facilities in order to produce feed for chicken. The excess corn and wheat as well as rapeseed and other crops is sold to domestic and international traders. Export sales of crops from the total harvest in 2018 was 18% (2017: 21%).

Sales of grains (after eliminating intersegment sales) accounted for approximately 11% of MHP's revenues in US dollar terms in 2018 (2017: 9%) with adjusted EBITDA per ha of US\$ 416 (2017: US\$ 267).

MHP uses chicken litter to meet part of its needs for the fertiliser used in grain production (both directly from rearing sites and from the biogas complex).

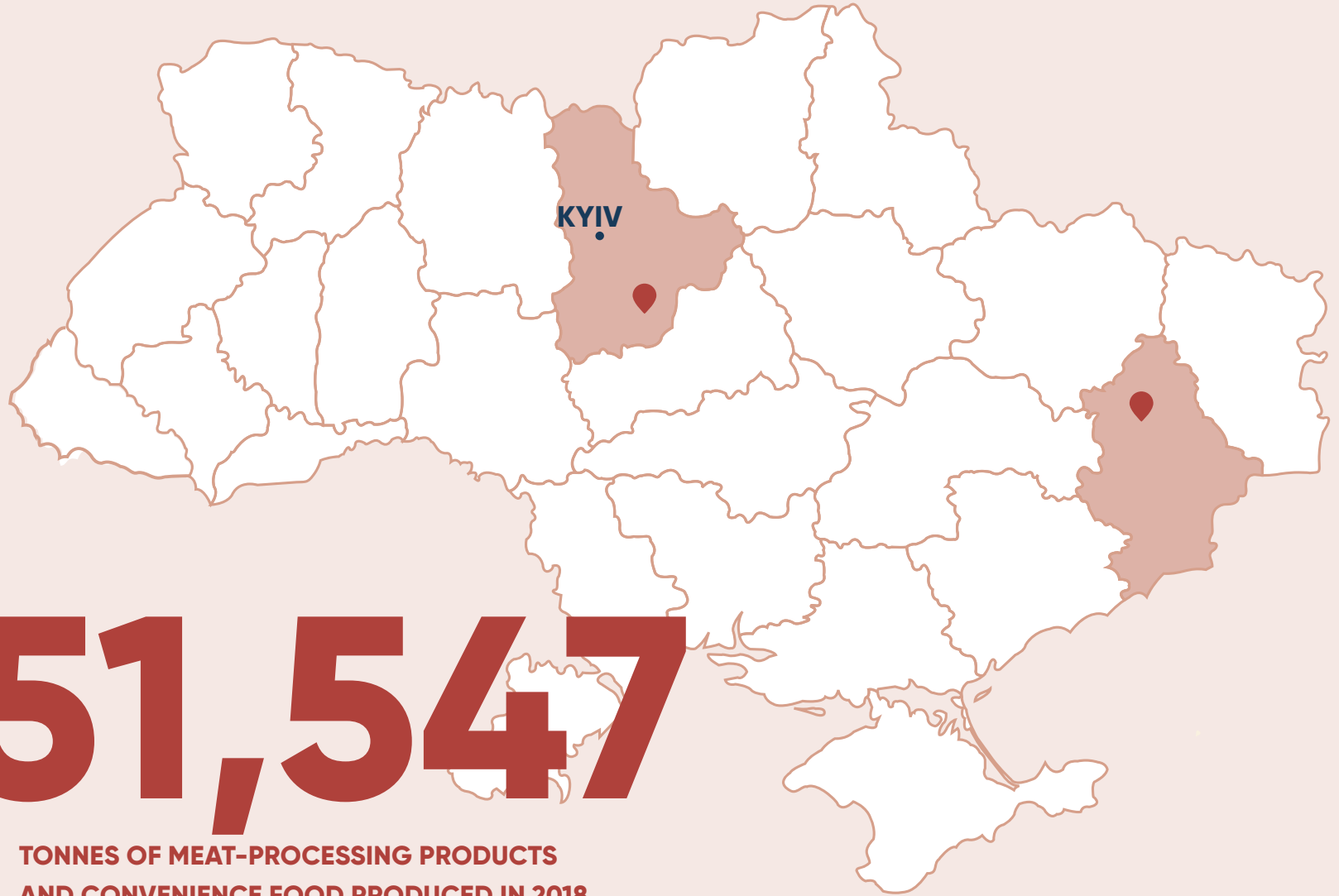
MHP operates a crop rotation scheme to increase productivity and achieve long-term operational efficiency. Each field is cultivated with different crops on a fixed rotation plan which ends with a fallow period to allow the soil to recover. The crop rotation scheme ensures that land is cropped without exhausting the soil and the use of chemical fertilisers and pesticides is minimised.

MHP's integrated business model, crop rotation and its application of chicken litter for energy production and fertiliser significantly reduces the greenhouse gas emissions associated with its products.

In line with MHP's strategy, the Company plans to increase its land bank to 500,000 hectares of land in the medium term.



# OTHER AGRICULTURAL SEGMENT



# 51,547

TONNES OF MEAT-PROCESSING PRODUCTS  
AND CONVENIENCE FOOD PRODUCED IN 2018

● MEAT-PROCESSING OPERATIONS

- Ukrainian Bacon
- Myronivsky Meat Processing Plant Lehko (MMPP)



15%

**OF ALL SAUSAGE AND COOKED MEATS  
PRODUCED IN UKRAINE IN 2018**

\*\* State Statistics Committee of Ukraine

\*\*\* Stock Keeping Units

**KEY FINANCIAL DATA**

in mln. US\$, except margin data	2018	2017	% change
<b>REVENUE</b>	<b>134</b>	<b>120</b>	<b>12%</b>
- Meat processing	103	67	54%
- Other*	31	53	-42%
<b>IAS 41 STANDARD GAINS</b>	<b>0</b>	<b>4</b>	<b>-100%</b>
<b>GROSS PROFIT</b>	<b>11</b>	<b>19</b>	<b>-42%</b>
Gross margin	8%	16%	-8 pps
<b>ADJUSTED EBITDA</b>	<b>16</b>	<b>19</b>	<b>-16%</b>
Adjusted EBITDA margin	12%	16%	-4 pps

\* Includes convenience food products, milk, cattle, goose meat, foie gras and feed grains.

The Other Agricultural Segment mainly comprises meat-processing operations which have seen substantial increases in the pace of growth and capacity utilisation over the last two to three years. MHP's two meat-processing facilities are the largest and most technologically advanced in Ukraine: Ukrainian Bacon is the Com-

pany's meat-processing plant; and Myronivsky Meat-Processing Plant Lehko ("MMPP") is the convenience food plant. According to SSCU\*, MHP is the leader in a highly-fragmented meat-processing market, accounting for approximately 15% of all sausage and cooked meats produced in Ukraine in 2018.

**SAUSAGES AND COOKED MEATS**

Ukrainian Bacon is an integrated production facility for meat products located in the Donetsk region. The Company produces and sells to the domestic market various types of chicken, pork and beef sausages, including frankfurters, smoked and semi-smoked sausages, ham and other cooked meat products. Processed meat products are only sold in Ukraine under the following brands: "Bashchinsky" (around 90%); "Europroduct" (around 5%); and "Sytni" (around 4%); and other brands (around

1%). There are currently 236 SKUs\*\* in the range including sausages, frankfurters, meat balls and shish kebabs.



Sales volumes of processed meat products in 2018 remained stable and constituted 33,975 tonnes. Average sausage and cooked meat prices increased by 20% year-on-year to UAH 62.22 per kg excluding VAT.

Meat-processing products	2018	2017	% change
Sales volume, tonnes	33,975	33,823	0%
Price per kg excluding VAT (UAH)	62.22	51.97	20%

# MEAT BRANDS



**BASHCHINSKY**

 Ukraine  
 Sausages, convenience food (chilled), smoked chicken



**LEHKO!**

 Ukraine  
 Convenience food (frozen)

**NON-BRANDED**

 Ukraine  
 Convenience food (frozen), bulk



**SYTNI**

 Ukraine  
 Convenience food (frozen)



**QUALIKO**

 Export  
 Convenience food (frozen), raw marinated chicken (frozen)



**CONVENIENCE FOOD PRODUCTS**

MHP is one of the leading Ukrainian industrial producers of chicken, pork and beef convenience food products which are mainly sold under the “Sytni” brand. More than 50% of the Company’s meat requirements are sourced from internally produced chicken meat and around 11% of total convenience food products was exported.

In 2018, convenience food sales volumes increased by 26% to 17,997 tonnes with a year-on-year price increase of 7% to UAH 42.53 per kg excluding VAT.

Convenience food	2018	2017	% change
Sales volume, tonnes	17,997	14,240	26%
Price per kg excluding VAT (UAH)	42.53	39.68	7%

The MMPP facility produces a wide assortment of products at affordable prices which are available in supermarkets and at “Nasha Riaba” branded franchise outlets. The “Lehko!” range consists of a variety of convenience food products ranging from raw (marinated) to pre-cooked. There are currently 168 SKUs in the convenience food range including the “Sytni” brand, the “Baschinsky” brand (chilled cooked products), the “Lehko!” brand (chicken nuggets, “Chicken Kiev”) and raw salted non-branded products for exports. MHP supplies “Yum! Brands” with poultry products for its Kentucky Fried Chicken (“KFC”) restaurants in Ukraine. All MHP’s poultry meat for KFC is processed at the Lehko plant.

**IN 2018, CONVENIENCE  
FOOD SALES VOLUMES  
INCREASED YEAR-ON-YEAR  
BY**



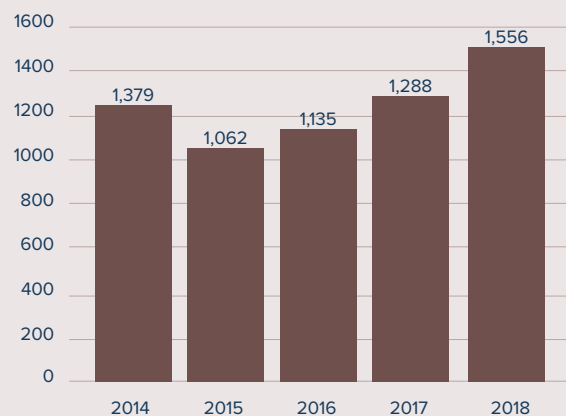
# KEY PERFORMERS INDICATORS



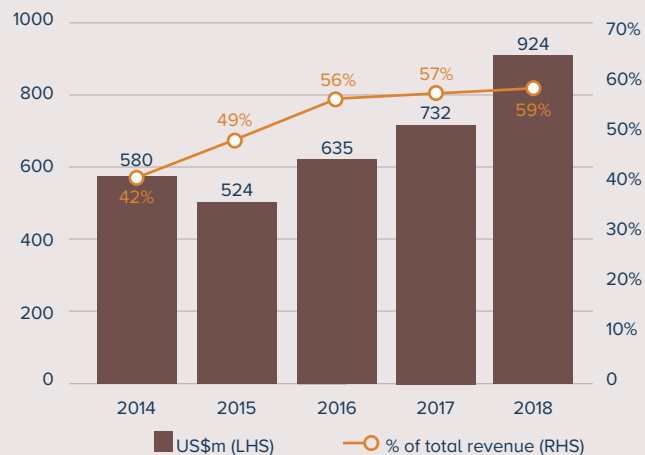
WE MONITOR PROGRESS AGAINST THE DELIVERY OF OUR STRATEGIC GOALS USING SEVERAL FINANCIAL KEY PERFORMANCE INDICATORS (“KPIs”).

Each KPI provides a way of measuring elements of our strategy. Our strategy focusses upon the medium to long term and therefore we consider how we have performed over a number of years, showing the KPIs for the last five years.

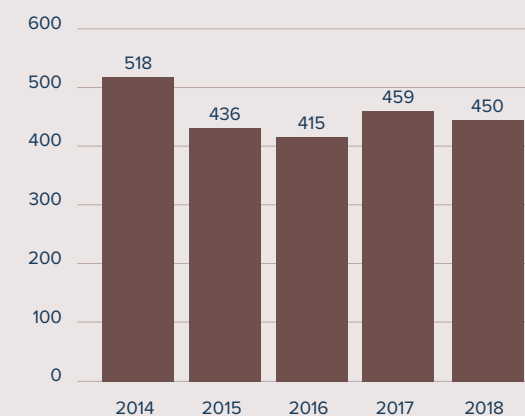
REVENUE, US\$m



EXPORT REVENUE, US\$m



ADJUSTED EBITDA, US\$m



HOW WE CALCULATE IT

As reported.

Revenue to destinations outside Ukraine, received in US\$ and EUR.

Adjusted EBITDA is defined as profit before tax, net finance costs, depreciation and amortisation, net after-tax exceptional and non-recurring items, net foreign exchange loss, and net other expenses.

WHY WE MEASURE IT

To ensure we are successful in growing the business.

To ensure we are delivering on our strategy of international expansion and in turn leading to additional hard currency revenue. Export revenue provides MHP with a natural hedge against local currency volatility.

To track the underlying performance of the business.

2018 PROGRESS

Revenue was up 21% y/y driven by an increase in production of poultry meat, grains, vegetable oils and convenience food.

Export revenue was up 26% y/y driven by an increase in exports of poultry meat, grains and vegetable oils. MHP now exports poultry meat to over 80 countries (2017: 63 countries).

Adjusted EBITDA was down 2% y/y mainly due to the cancellation of VAT subsidies in Ukraine.

LINK TO STRATEGY

Execution of our diversified sales strategy – both for exports and domestically.

Export growth through sales diversification and market targeting.

Production efficiency and focus on consumer innovation.

CHANGE TO KPI

KPI unchanged y/y.

KPI unchanged y/y.

KPI unchanged y/y.

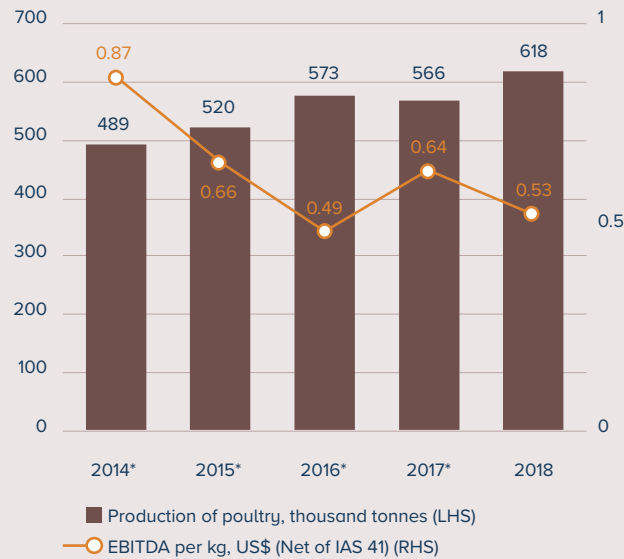
# KEY PERFORMANCE INDICATORS BY SEGMENT

THE COMPANY IS BASED ON A VERTICALLY-INTEGRATED BUSINESS MODEL, WHICH IS THE KEY TO STRONG PROFITABILITY.

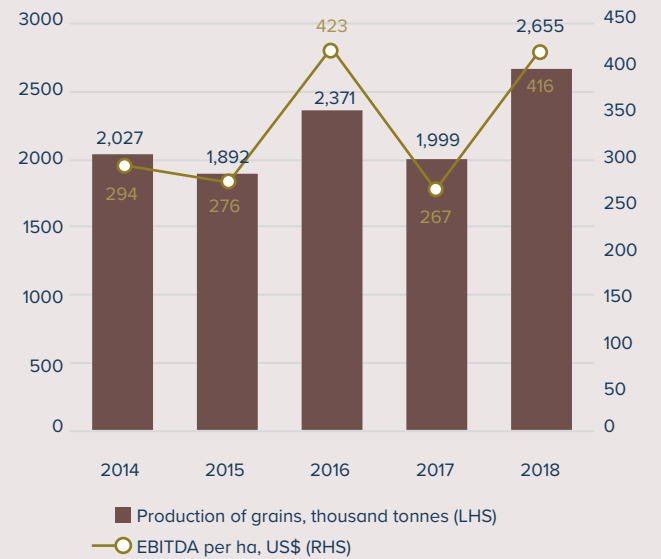
## CONSOLIDATED 2018 ADJUSTED EBITDA MARGIN

# 29%

### POULTRY & RELATED OPERATIONS SEGMENT



### GRAIN GROWING SEGMENT



\* since 2014, adjusted without Crimea assets

# FINANCIAL POLICIES

MHP HAS INCLUDED CERTAIN MEASURES IN THIS REPORT THAT ARE NOT MEASURES OF PERFORMANCE UNDER IFRS, INCLUDING EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (“EBITDA”) AND LAST TWELVE MONTHS’ EBITDA (“LTM EBITDA”) BOTH AT A CONSOLIDATED AND AT A SEGMENT LEVEL.

Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are presented in this Report because the Directors consider them to be important supplemental measures of the Group’s financial performance.

Additionally, the Directors believe these measures are frequently used by investors, analysts and other interested parties to evaluate the efficiency of the Group’s operations and its ability to employ its earnings for the repayment of debt, capital expenditure and working capital requirements.

We define Adjusted EBITDA as profit for the year before income tax expense, finance costs, finance income, depreciation and amortisation expense, net after-tax exceptional and non-recurring items, net foreign exchange loss, and net other expenses. Depreciation and amortisation expense are components of both cost of sales and selling, general and administrative expenses in the consolidated financial statements.

LTM Adjusted EBITDA is defined as Adjusted EBITDA for the prior 12 consecutive months ending on such date of measurement; LTM Adjusted EBITDA for the year ended 31 December equals Adjusted EBITDA. Adjusted EBITDA is derived by adjusting EBITDA (as defined above) for losses/gains on impairment/reversal of impairment of property, plant and equipment, net, losses on disposals of subsidiaries, other expenses, net and foreign exchange (loss)/gain, net. The Group believes that this measure is more useful in evaluating the financial performance of the Company and its subsidiaries than traditional EBITDA due to the exclusion items that management considers not to be representative of the underlying operations of the Group.

The Group’s Segment measure in the consolidated financial statements is defined as “Segment result” and represents operating profit by Segment before unallocated corporate expense, being the Segment measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of Segment performance. Within the Management Report, the reported Segment result is adjusted for the amount of depreciation and amortisation per Segment in order to present “Segment Adjusted EBITDA” to external users, which MHP feels is a more commonly-used external metric familiar to investors.

Net debt is defined as bank borrowings, bonds issued and finance lease obligations less cash and cash equivalents. The Group believes that net debt is commonly used by securities analysts, investors and other interested parties in the evaluation of a company’s leverage. Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are measures of MHP’s operating performance that are not required by, or presented in accordance with IFRS. Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are not measurements of MHP’s operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit, Segment result or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of MHP’s liquidity.

Such measures presented in this Annual Report may not be comparable to similarly titled measures of performance presented by other companies, and should not be considered as substitutes for the information contained in the consolidated financial statements.

## RECONCILIATION OF ADJUSTED EBITDA

US\$ thousand	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the year from continuing operations	128,104	230,255
Income taxes	50,527	(17,118)
Finance costs	138,019	108,399
Finance income	(4,457)	(3,472)
Depreciation and amortisation expense	134,953	93,225
<b>EBITDA</b>	<b>447,146</b>	<b>411,289</b>
Adjustments:		
Loss on impairment/reversal of impairment of property, plant and equipment, net	3,803	3,607
Other expenses, net	10,568	8,077
<b>Foreign exchange loss/(gain), net</b>	<b>(11,638)</b>	<b>35,615</b>
<b>Adjusted EBITDA</b>	<b>449,879</b>	<b>458,588</b>

## RECONCILIATION OF NET DEBT

Calculation of net debt was aligned with definitions used for the purpose of assessment of compliance with debt covenants provided in the respective loan agreements. Thus, the accrued interest which has been included previously as part of the carry-

ing amount of bank borrowings, bonds issued and finance lease obligations has been excluded from the amount of total debt. As of 31 December 2018 and 2017 the leverage ratio was as follows:

US\$ thousand	Year ended 31 December 2018	Year ended 31 December 2017
Bank borrowings	238,498	175,734
Bonds issued	1,090,935	970,088
Finance lease obligations	13,442	11,450
<b>Total debt</b>	<b>1,342,875</b>	<b>1,157,272</b>
Less:		
Cash and cash equivalents	(211,768)	(125,554)
<b>Net debt</b>	<b>1,131,107</b>	<b>1,031,718</b>

Segment results represent operating profit, as adjusted for unallocated corporate expenses, which is reconciled to Segment

Adjusted EBITDA before unallocated expenses by adding back Segment depreciation as illustrated in the following tables:

## SEGMENT PERFORMANCE

Year ended 31 December 2018					
US\$ million	Poultry Segment	Grain Growing Segment	Other Agricultural Segment	Eliminations	Consolidated
External sales	1,241	181	134	–	1,556
Sales between business segments	50	244	1	(295)	–
Total revenue	1,291	425	135	(295)	1,556
<b>Segment results</b>	<b>229</b>	<b>106</b>	<b>8</b>	<b>-</b>	<b>344</b>
Add back					
Depreciation and amortisation	82	45	8		134
Segment Adjusted EBITDA before unallocated expenses	<b>311</b>	<b>151</b>	<b>16</b>		<b>478</b>



# FINANCIAL REVIEW

## HOW THE COMPANY PERFORMED IN 2018

### Operations

- Poultry production reached 617,943 tonnes, up 9% (12M 2017: 566,242 tonnes).
- The average price of chicken meat increased by 12% year-on-year to UAH 39.86 per kg excluding VAT (12M 2017: UAH 35.63 per kg) (excluding VAT).
- Chicken meat exports increased by 30% to 286,846 tonnes (12M 2017: 220,983 tonnes), mainly as a result of increased sales to countries in MENA and the EU.

### Financials

- Revenue of US\$ 1,556 million, increased by 21% year-on-year (12M 2017: US\$ 1,288 million).
- Export revenue amounted to US\$ 924 million, 59% of total revenue (12M 2017: US\$ 732 million, 57% of total revenue).
- Adjusted EBITDA margin decreased to 29% from 36%; adjusted EBITDA decreased to US\$ 450 million from US\$ 459 million.
- Net profit for the period is US\$ 128 million (2017: US\$ 230 million profit).

in million US\$ unless indicated otherwise	2018	2017	% change <sup>*</sup>
<b>Revenue</b>	<b>1,556</b>	<b>1,288</b>	<b>21%</b>
IAS 41 standard gains/(losses)	32	21	52%
<b>Gross profit</b>	<b>420</b>	<b>396</b>	<b>6%</b>
Gross profit margin	27%	31%	-4 pps
<b>Adjusted operating profit**</b>	<b>315</b>	<b>365</b>	<b>-14%</b>
Adjusted operating profit margin	20%	28%	-8 pps
<b>Adjusted EBITDA</b>	<b>450</b>	<b>459</b>	<b>-2%</b>
Adjusted EBITDA margin	29%	36%	-7 pps
<b>Net profit before foreign exchange difference</b>	<b>116</b>	<b>266</b>	<b>-56%</b>
Net profit margin before foreign exchange gain/(loss)	7%	21%	-14 pps
Foreign exchange gain/(loss)***	12	(36)	133%
<b>Net profit / (loss)</b>	<b>128</b>	<b>230</b>	<b>-44%</b>
Net profit margin	8%	18%	-10 pps

<sup>\*</sup> pps – percentage points

<sup>\*\*</sup> Adjusted operating profit from continuing operations before loss on impairment of property, plant and equipment

<sup>\*\*\*</sup> Average official FX rate: UAH/US\$ 27.2016 in 2018 and UAH/US\$ 26.5947 in 2017

US\$

35,371

THOUSAND

**GOVERNMENT GRANTS RECEIVED  
BY THE GROUP IN 2018****Government grant income**

On 30 December 2016, the President of Ukraine signed the Law No. 1791 “On Amendments to the Tax Code of Ukraine Regarding the Balancing of Budget Revenues in 2017” (the “Law No. 1791”). The Law No. 1791 introduced changes to VAT administration for agricultural companies which previously enjoyed a special VAT regime. In order to continue state support for agricultural companies, the Law No. 1791 introduced budget subsidies for agricultural companies. From 2017 onwards, budget subsidies will be provided for five consecutive years until 1 January 2022. The agricultural producers eligible for the subsidies include those involved in poultry production and animal farming, as well as fruit and vegetable farmers. For each agricultural producer, the amount of the direct subsidy is not to exceed the amount of VAT tax paid by the producers, and is distributed on a monthly basis. As of the date of the authorisation of these consolidated financial statements, the Government has not allocated the specific amount for the state subsidies for qualifying agricultural companies in 2018. Therefore, during the year ended 31 December 2018 the Group was not able to receive respective state subsidies from the budget and has not recognised any such subsidies in the consolidated financial statements accordingly. In 2017, US\$ 52,605 thousand of subsidies were recognised.

However, the Ukrainian Government continues to support domestic agri producers and attract investments into the agricultural sector. According to the Law “On the State Budget for 2018”, UAH 6,311 million allocated to support the agricultural sector in 2018 via a compensation programme, including UAH 4,000 million to support the livestock sector and up to UAH 1,000 million

to purchase agricultural machinery produced in Ukraine. On 7 February 2018, the Cabinet of Ministers of Ukraine approved the procedure to obtain livestock sector state support.

During the year ended 31 December 2018, the Group received government grants in accordance with the compensation programme for the construction and reconstruction of livestock farms of UAH 960,666 thousand (US\$ 34,371 thousand). Government grants are presented in the statement of the financial position as deferred revenues, which is recognised in profit or loss on a systematic basis over the useful life of the related assets. Also, during the year ended 31 December 2018 the Group received UAH 27,940 (US\$ 1,000 thousand) thousand for rearing cattle. This amount was recognised in the consolidated statement of profit or loss and other comprehensive income in full.

59%

**OF 2018 GROUP REVENUE WAS DENOMINATED IN FOREIGN CURRENCIES (PRIMARYLY US DOLLARS)**

### Currency risk

During the year ended 31 December 2018, the Ukrainian Hryvnia appreciated against the EUR and the US\$ by 5.62% and 1.37% respectively (2017: depreciated against the EUR by 15.14% and 3.12% against the US\$). As a result, during the year ended 31 December 2018 the Group recognised net foreign exchange gain of US\$ 11,638 thousand (2017: foreign exchange loss of US\$ 35,615 thousand) in the consolidated statement of profit or loss and other comprehensive income.

During the year ended 31 December 2018, US\$ 328 thousand (2017: US\$ 336 thousand) net foreign exchange gain resulting from the difference in National Bank of Ukraine and Ukrainian interbank currency market exchange rates was included in Other operating expenses, net.

Currency risk is mitigated by the existence of US\$-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 2018 and 2017:

### THE GROUP'S EXPORT SALES TO EXTERNAL CUSTOMERS BY MAJOR PRODUCT TYPES IN 2018 AND 2017

US\$ thousand	2018	2017
Chicken meat and related products	471,177	334,385
Vegetable oil and related products	274,313	259,054
Grain	156,511	108,815
Other agricultural products	21,703	30,012
	<b>923,704</b>	<b>732,266</b>

The functional currency for the Ukrainian companies of the Group is the Ukrainian Hryvnia (UAH). However, for the convenience of stakeholders, MHP presents its financial statements

in US dollars (US\$), using quarterly average and historical exchange rates.

### RELEVANT EXCHANGE RATES

Currency	Closing rate as at 31 December 2018	Average for 2018	Closing rate as at 31 December 2017	Average for 2017
UAH/US\$	27.6883	27.2016	28.0672	26.5947
UAH/EUR	31.7141	32.1341	33.4954	30.0128

SEGMENT  
PERFORMANCE

## POULTRY AND RELATED OPERATIONS SEGMENT

in million US\$ unless indicated otherwise	2018	2017	% change*
<b>Revenue</b>	<b>1,241</b>	<b>1,051</b>	<b>18%</b>
Poultry and other	973	795	22%
Vegetable oil	268	256	5%
<b>IAS 41 standard gains/(losses)</b>	<b>(1)</b>	<b>29</b>	<b>-103%</b>
<b>Gross profit</b>	<b>301</b>	<b>311</b>	<b>-3%</b>
Gross margin	24%	30%	-6 pps
<b>Adjusted EBITDA</b>	<b>311</b>	<b>367</b>	<b>-15%</b>
Adjusted EBITDA margin	25%	35%	-10 pps
Adjusted EBITDA per 1 kg (net of IAS 41) (US\$)	0.53	0.64	-17%

\* pps – percentage points

During 2018 the Poultry and Related Operations segment's revenue increases by 18% y/y driven mostly by an increase in price and sales volume of chicken meat, partly offset by decreases in the price of vegetable oil.

An IAS 41 gain/(loss) reflects the net change in the fair value of biological assets and agricultural produce. The IAS 41 standard loss in 2018 amounted to US\$ 1 million mainly as a result of a reduction in poultry meat stocks, partly offset by an increase in broiler chicken stocks due to the launch of new rearing sites.

The segment gross profit for 2018 remained almost stable at US\$ 301 million.

In 2018, adjusted EBITDA decreased by 15%, mainly due to a decrease in government grant income (there was no allocation of grants/subsidies in Ukraine's 2018 budget), as well as an increase in administration, sales and distribution expenses mainly due to increases in payroll costs, logistics costs and warehouse rent.

SEGMENT REVENUES INCREASED  
YEAR-ON-YEAR BY

SEGMENT  
PERFORMANCE

## GRAIN GROWING SEGMENT

in million US\$ unless indicated otherwise	2018	2017	% change
<b>Revenue</b>	<b>181</b>	<b>117</b>	<b>55%</b>
IAS 41 gains / (losses)	33	(12)	+375%
<b>Gross profit</b>	<b>108</b>	<b>66</b>	<b>64%</b>
<b>ADJUSTED EBITDA</b>	<b>151</b>	<b>95</b>	<b>59%</b>
ADJUSTED EBITDA per 1 hectare (US\$)	416	267	56%

The Grain Growing segment's revenue in 2018 amounted to US\$ 181 million compared to US\$ 117 million in 2017. This increase in revenue was mainly attributable to the larger volumes of crops sold in 2018 as a result of the stronger harvest in 2018.

The IAS 41 gain in 2018 amounted to US\$ 33 million. The gain was primarily driven by an increase in the volume of agricultural produce stocks as of 31 December 2018 compared to 2017 caused by substantially higher yields and an increase in the amount of corn reserved for MHP's own consumption during 2019, as well as the revaluation of field crops (biological assets) at the reporting date.

The segment's 2018 adjusted EBITDA increased by 59% year-on-year due to higher yields from the principal crops.

THE SEGMENT'S  
REVENUE FOR 2018

MILLION, US\$

SEGMENT  
PERFORMANCE

## OTHER AGRICULTURAL SEGMENT

in million US\$ except margin data	2018	2017	% change <sup>*</sup>
<b>Revenue</b>	<b>134</b>	<b>120</b>	<b>12%</b>
Meat processing	103	67	54%
Other**	31	53	-42%
<b>IAS 41 gains / (losses)</b>	<b>0</b>	<b>4</b>	<b>-100%</b>
<b>Gross profit</b>	<b>11</b>	<b>19</b>	<b>-42%</b>
Gross margin	8%	16%	-8 pps
<b>Adjusted EBITDA</b>	<b>16</b>	<b>19</b>	<b>-16%</b>
Adjusted EBITDA margin	12%	16%	-4 pps

<sup>\*</sup> pps - percentage points

<sup>\*\*</sup> includes convenience food products, milk, cattle, goose meat, foie gras and feed grains.

The Other Agricultural segment revenue increased by 12% year-on-year in 2018 to US\$ 134 million, in line with an increase in the price of processed meat products.

The segment's adjusted EBITDA decreased to US\$ 16 million in 2018 compared to US\$ 19 million in 2017, a decrease of 16% year-on-year driven mostly by lower returns earned from cattle and milk operations.

THE REVENUE OF THE  
SEGMENT INCREASED BY

## GROUP FINANCIAL POSITION AND CASH FLOW

US\$ million	2018	2017
<b>Cash from operations</b>	<b>306</b>	<b>333</b>
Change in working capital	(45)	(120)
<b>Net cash from operating activities</b>	<b>261</b>	<b>213</b>
CAPEX	(232)	(123)
Disposal of subsidiaries	7	76
<b>Net cash used in investing activities</b>	<b>(225)</b>	<b>(47)</b>
Cash used in financing activities	137	(113)
Dividends	(89)	(81)
<b>Total financial activities</b>	<b>48</b>	<b>(194)</b>
<b>Total change in cash*</b>	<b>84</b>	<b>(28)</b>

\* Calculated as net cash from operating activities plus cash used in investing activities plus total financial activities

Cash flow from operations before changes in working capital for 2018 amounted to US \$306 million (2017: US\$ 333 million).

Use of funds in working capital during 2018 mostly related to higher investment in the stock of crops designated for MHP's consumption as of 31 December 2018, partly offset by an increase in prepayments for sunflower oil.

During 2018, total CAPEX amounted to US\$ 232 million mainly due to the launch of production sites of Phase 2 of the Vinnytsia Poultry Complex.

**DURING 2018 TOTAL CAPEX  
AMOUNTED TO**



**MILLION, US\$**

## DEBT STRUCTURE AND LIQUIDITY

US\$ million, unless indicated otherwise	31 December 2018	31 December 2017
<b>Total Debt</b>	<b>1,343</b>	<b>1,157</b>
Long-term debt	1,206	1,116
Short-term debt	137	41
Cash and bank deposits	(212)	(126)
<b>Net Debt</b>	<b>1,131</b>	<b>1,032</b>
LTM Adjusted EBITDA	450	459
Net Debt / LTM Adjusted EBITDA	2.51 x	2.25 x

EXPORT REVENUE IN  
2018 AMOUNTED TO

MILLION, US\$

As of 31 December 2018, long-term debt represented 90% of total outstanding debt. The weighted average interest rate was around 7%.

As of 31 December 2018, MHP's cash and cash equivalents amounted to US\$ 212 million.

Net debt increased to US\$ 1,131 million, compared to US\$ 1,032 million as of 31 December 2017.

The Net Debt / LTM adjusted EBITDA ratio was 2.51 x as of 31 December 2018, well within the Eurobond covenant limit of 3.0 x.

As a hedge for currency risks, revenues from the export of grain, sunflower and soybean oil, sunflower husks and chicken meat are denominated in US\$, covering debt service expenses in full. Export revenue in 2018 amounted to US\$ 924 million or 59% of total revenues (2017: US\$ 732 million or 57% of total sales).



**OUR MAIN DRIVERS FOR GROWTH IN 2019 WILL BE:**

- An increase in the production volumes of chicken meat by around 100,000 tonnes as a result of our capital investment in the expansion of the Vinnysia poultry project (Phase 2);
- MHP continues to be well-positioned to deliver further increases in both revenue and profit in 2019, driven by increasing production, mainly from the Poultry and Related Operations Segment and its recent acquisition of Perutnina Ptuj in the Balkans.
- An increase in export sales of chicken meat across all regions, which is expected to result in around 320,000 tonnes of chicken meat; and
- Construction of the first phase of and launch of an alternative energy biogas project of 12 MW capacity at the Vinnytsia poultry complex.


We are confident that, with our vertically-integrated business model, we will continue to deliver strong financial results, supported by a significant and growing share of hard currency revenues from exports of chicken, oils and grain.

**A YEAR-ON-YEAR INCREASE IN CHICKEN MEAT PRODUCTION VOLUMES OF AROUND**A large graphic of the number 100,000. The digits are filled with a close-up image of a brown chicken egg, showing its texture and color. The number is positioned centrally on the page.

100,000

**TONNES**

# RISK MANAGEMENT



THE ENVIRONMENT AND MARKETS IN WHICH WE OPERATE ARE DYNAMIC AND SUBJECT TO CONSTANT CHANGE. WE MUST BE ABLE TO RESPOND TO THESE CHANGES, TAKING APPROPRIATE LEVELS OF RISK TO PROTECT OUR MARKET POSITION AND TO TAKE ADVANTAGE OF OPPORTUNITIES.

A failure to manage these changes and risks could have an adverse impact on our business and on the achievement of our strategic goals.

We have integrated our risk management processes with our strategy and embedded them throughout the Company, thereby aligning risk management, strategy and performance across all entities, departments and functions. This enables us to make better business decisions.

## RISK MANAGEMENT FRAMEWORK

TO UNDERSTAND OUR RISK PROFILE AND ALIGN IT WITH OUR OBJECTIVES AND DECISION-MAKING PROCESSES, WE OPERATE A GLOBAL RISK FRAMEWORK THAT ENSURES WE IDENTIFY RISK, SET TOLERANCE LEVELS AND CONTINUALLY MANAGE RISK ACROSS OUR BUSINESS



**IN 2018, MHP ENHANCED  
AND IMPLEMENTED ITS  
RISK MANAGEMENT  
FRAMEWORK BASED ON  
RECOMMENDATIONS FROM**

**RISK OVERSIGHT**

The Audit Committee monitors the effectiveness of the Company's risk management and control systems through regular updates from management, reviews of the key findings of the external and internal auditors, and an annual review of the risk management process and risk matrix. Results are reported to the Board, which has overall responsibility for risk management.

The Internal Audit function provides objective assurance to the management team and to the Audit Committee on the effectiveness of risk management and helps management to continuously improve its risk management framework and process.

The Company's approach to the identification and assessment of risks, and the response to risks, is based on best business practices and international COSO Enterprise Risk Management standards.

**ENHANCEMENTS OVER THE LAST 12 MONTHS**

We constantly strive to improve our risk management process.

In 2018, MHP enhanced and implemented its risk management framework based upon the recommendations in the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) Enterprise Risk Management Framework. This risk management framework defines how to identify, classify, assess and manage the risks that the Company faces in order to provide reasonable assurance regarding the achievement of the Company's strategy and objectives. The implementation of the risk management framework has been supported by the training of the management teams.

Following the most recent COSO guidance for risk management, in 2018 we focussed on the development and enhancement of the Group's risk management culture:

- **Encouraging the identification of risks**  
Managers support open communication and promote disclosure and risk management discussions.
- **Integrating risk management in every role and function**  
Every employee shares the responsibility for managing risk.
- **Continuous identification and assessment of risks**  
Process owners regularly look for new operational risks, re-assess the status of known risks, and reevaluate or update plans to prevent or respond to problems associated with these risks.

COSO

# PRINCIPAL RISKS: BUSINESS RISKS

The principal risks facing the group are set out below

## OUTBREAKS OF AVIAN FLU AND OTHER LIVESTOCK DISEASES

### IMPACT

Avian flu may result in:

- loss of flock;
- loss of customers;
- export restrictions;
- distribution of disease; and
- significant financial losses.



### HOW WE MANAGE IT

To ensure the well-being of livestock at MHP's facilities, the Company has implemented high biosecurity standards and systems supplemented by a set of preventive veterinary-sanitary and hygiene measures, including:

- ongoing monitoring of avian flu cases worldwide followed by rigorous assessment of MHP's existing biosecurity systems based on identified reasons causing those cases;
- geographic separation of poultry rearing facilities with a significant distance between each facility;
- where any infected areas are identified, immediate actions are taken to limit the access of all visitors to MHP facilities;

- regular monitoring of poultry conditions, including analysis of indicators of their well-being and health and investigation of the quality of raw materials (litter, food, water) and products (poultry carcasses);
- monitoring compliance with biosafety rules; and
- strict control over the implementation of preventive and control measures. In January 2017, EU compartmentalisation procedures were introduced in Ukraine. This means that the emergence of avian influenza symptoms in poultry flocks in part of a country does not have to lead to a total trade suspension.

## OCCURRENCE OF A MATERIAL ENVIRONMENTAL OR HEALTH AND SAFETY INCIDENT

### IMPACT

The occurrence of a material environmental or health and safety incident impacts day-to-day operations, leading to financial penalties and reputational harm.

### HOW WE MANAGE IT

MHP maintains environmental; health and safety policies, management systems and procedures in line with good practice and legal requirements. These

are regularly reviewed and updated and employees participate in frequent training and development activities.

# PRINCIPAL RISKS: BUSINESS RISKS

## FLUCTUATIONS IN PRICES OF GRAINS AND RELATED PRODUCTS

### IMPACT

Fluctuations in prices of grains and related products in Ukraine and globally may affect the cost of chicken production and the profitability of MHP's grain growing operations, which could materially affect MHP's operating results.

### HOW WE MANAGE IT

MHP drives cost efficiency across all its businesses, supported by its vertically-integrated business model. MHP minimises its exposure to fluctuations in world grain prices by growing internally 100% of the corn required for poultry feed produc-

tion. The Company has also adopted an innovative approach by replacing a significant proportion of expensive imported soybean protein with protein from sunflower seeds grown by MHP.

## FLUCTUATIONS IN DEMAND AND MARKET PRICES OF CHICKEN MEAT

### IMPACT

MHP's business and financial results are dependent upon prices of chicken products, both in Ukraine and worldwide.

### HOW WE MANAGE IT

Demand for chicken in Ukraine is expected to remain strong and to have further growth potential as beef and pork are mostly produced by households and small farms and are far more expensive to produce and purchase than chicken. Chicken meat is the most affordable kind of meat from both a price and a diet

perspective. MHP products are available for purchase through different sales channels at all times and the Company offers competitive trade terms to its customers. MHP's domestic strategy, and in particular its focus on higher value-add products, are drivers for increasing the Company's profitability from chicken meat sales in Ukraine.

## FAILURE TO IMPLEMENT THE GROWTH STRATEGY AND EXPANSION INTO EXPORT MARKETS

### IMPACT

MHP may be unsuccessful in its attempt to increase market share for its chicken meat in export markets and may be impacted by import restrictions imposed by other countries on agricultural commodities.

### HOW WE MANAGE IT

MHP has a long-term strategy for the Group's expansion into diversified export markets. MHP sees more uncertainty in the Middle East and Africa compared with the EU. However, MHP's market share of key poultry import markets remains relatively low (less than 10%) allowing MHP

to redistribute volumes between markets without disruption. Since our market share is low, MHP will be able to grow its presence gradually. This will be partly through growth in population and consumption per capita and partly through offering better service and quality to our customers.

# PRINCIPAL RISKS: BUSINESS RISKS

## OCCURRENCE OF A MATERIAL PRODUCT QUALITY OR PRODUCT SAFETY INCIDENT

### IMPACT

The occurrence of a material product quality or product safety incident impacts day-to-day operations, leading to financial penalties and a reduction in brand value.

### HOW WE MANAGE IT

MHP prioritises product safety and quality in line with international best practice and the applicable regulations. It maintains robust quality and safety management systems and has an excellent track record in this area.



## FLUCTUATIONS IN COMMODITY PRICES SUCH AS GAS, FUEL AND ENERGY

### IMPACT

Changes in commodity prices affect MHP's production and distribution costs and in turn impact operating results and cash flows.

### HOW WE MANAGE IT

MHP closely monitors and controls its gas, fuel and energy costs. Energy price risks are mitigated by a priority focus on developing renewable sources of energy and a consistent increase in the use

of co-generation and alternative energy technology. The processing of sunflower results in the production of large volumes of husks that are burned to generate steam heat for our fodder complexes.

## UNFAVOURABLE WEATHER CONDITIONS

### IMPACT

Extreme changes in temperature or rainfall including weather changes in summer and winter could influence agricultural productivity as a whole and crop yield, harvesting and transportation costs in particular.

### HOW WE MANAGE IT

Ukraine's weather is generally temperate, with plenty of sunshine in the summer and adequate rainfall. This combines with extremely fertile soil to create excellent growing conditions. In addition, MHP's management team supports the

use of modern technology to achieve a yield which is significantly higher than the average for Ukraine\*.

\* Source: Agroperspectiva

# PRINCIPAL RISKS: BUSINESS RISKS

## FAILURE TO SUCCESSFULLY INTEGRATE NEWLY ACQUIRED BUSINESSES

### IMPACT

The acquisition and subsequent integration of new businesses in Europe will be subject to a number of challenges and uncertainties, including: the diversion of Management's attention from other business concerns and potential disruption to MHP's ongoing business; the potential necessity of coordinating geographically separated facilities; incurring unanticipated expenses; the consolidation of functional areas where appropriate; adapting MHP's business model and practices to

different jurisdictions; adapting any acquired companies' practices and policies to those of MHP; and possible inconsistencies in standards, controls, procedures and policies, operating systems and business culture.

### HOW WE MANAGE IT

In anticipation of new acquisitions MHP has prepared a succession and development plan for the Company's managers which allows them to participate intensively in the management of new busi-

nesses. MHP has developed a plan of key controls and safeguards to be put in place. During our due diligence processes on potential target acquisitions we pay specific attention to the production and safety standards of those potential acquisitions and we develop plans to integrate such standards with MHP. This is also factored in to our financial resources allocation.

## LACK OF HIGHLY QUALIFIED STAFF AT STRATEGIC LEVEL AND PRODUCTION ENTERPRISES

### IMPACT

The agriculture industry is facing a number of personnel challenges including: the migration of skilled workers to neighbouring countries; the ageing of the current workforce; and changes in the required skills base. A lack of qualified science, engineering, technical and other employees could increase risks to the long-term future of the business.

### HOW WE MANAGE IT

MHP works to maintain positive relationships with employees and strives to build upon its reputation as a high-quality, responsible employer of choice. As part of this, MHP provides a number of programmes designed to enrich its employees and the broader community including:

- the provision of education and professional programmes for the younger generation;

- the provision of its "Personnel Reserve" and "New Horizons" training programmes for prospective and high-performing employees;
- the implementation of a strategic action plan to build and support schools in regions where its facilities operate; and
- the development of a digitalisation strategy that is in the process of implementation and focusses on automating business processes and decision-making (artificial intelligence).



# PRINCIPAL RISKS: BUSINESS RISKS

## FAILURE TO ACCOMPLISH THE DIGITALISATION STRATEGY

### IMPACT

Changes in technology may render current technology obsolete or require MHP to make substantial capital investments. Resistance of employees and/or lack of expertise might result in an inability to accomplish the Company's digitalisation strategy which is aimed at increasing the efficiency of business operations and decreasing the dependence on the labour market.

### HOW WE MANAGE IT

MHP has upgraded its digital transformation strategy, focussing on optimisation and automation of key business processes. A change management culture is also being continuously developed throughout the Company. Strong internal project managers and counterparties are in place to assist in the successful implementation of the digitalisation strategy.



## INEFFICIENT PROCUREMENT AND AN INCREASE IN PRODUCTION COSTS

### IMPACT

An increase in MHP's production costs could materially and adversely affect its profitability.

### HOW WE MANAGE IT

MHP strives to continually improve its procurement procedures and production processes. The procurement of strategic items is centralised with a high level of regulation and control. The KPIs are set and are closely monitored with a view to decreasing costs of production.

# PRINCIPAL RISKS: FINANCE RISKS

## FLUCTUATIONS IN FOREIGN EXCHANGE RATES

### IMPACT

MHP operates globally and has operations and transactions in different currencies. Fluctuations in the value of the UAH versus the US dollar and other currencies give rise to transaction and translation exposure.

### HOW WE MANAGE IT

The majority of MHP borrowings are denominated in US dollars. The resulting exposure is hedged by the generation in 2018 of 59% of total revenue in hard currency from the export of sunflower and soybean oils, chicken meat and grain. The amount of export sales will continue

to increase with the further expansion of the Vinnytsia poultry complex and the strengthening of the Group's positions in export markets. This will allow MHP to continue to service all dollar-denominated loans and payments for operating activities.

## FLUCTUATIONS IN INTEREST RATES

### IMPACT

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

### HOW WE MANAGE IT

MHP monitors its interest rate exposures and analyses the potential impact of interest rate movements on its net interest expenses. MHP's debt portfolio is well balanced with an 85/15 share of fixed/

floating interest rates. The majority of MHP's borrowings are from foreign banks at rates lower than those available in Ukraine; a significant part of the Company's debt is also in the form of Eurobonds issued at fixed interest rates.

## CREDIT RISK

### IMPACT

Counterparties involved in transactions with MHP may fail to make scheduled payments, resulting in financial losses to MHP.

### HOW WE MANAGE IT

MHP has a diversified pool of customers. The amount of credit allowed to any one customer or group of customers is strictly controlled. Credit offered to major groups of customers, including supermarkets and franchisees is, on average, between 5 and 21 days. To hedge the risk, MHP procedures require verification of counterparties' solvency prior to the signing of an agreement with contractors. Policies

and operating guidelines include limits in respect of counterparties to ensure that there is no significant concentration of credit risk. Credit risks are managed by security paragraphs, which are included in agreements with customers. At foreign subsidiaries of MHP an insurance company is involved to approve the credit limit amount and to insure against the risk of non-payment.

# PRINCIPAL RISKS: FINANCE RISKS

## LIQUIDITY RISK

### IMPACT

If, in the long term, MHP is unable to generate and maintain positive operating cash flows and operating income, it may need additional funding. An inability to raise capital on favourable terms could lead to a default on its payment obligations and could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

### HOW WE MANAGE IT

MHP maintains efficient budgeting and cash management processes to ensure that adequate funds are available to meet its business requirements. MHP adopts a flexible CAPEX programme enabling capital projects to be deferred if necessary. MHP has an irreducible balance in hard currency on correspondent accounts and maintains a certain level of undrawn credit lines.



## INEFFICIENT INVESTMENTS

### IMPACT

An inefficient regulation of the Company's investment appraisal and realisation procedures or a lack of evaluation or proper authorisation of investment projects could result in the implementation of unauthorised and unprofitable investment decisions and a subsequent waste of capital.

### HOW WE MANAGE IT

MHP has developed and implemented procedures to ensure due process in this area. The Evaluation of Investment Projects procedure requires that the Investment / Project Team approves investment projects. All investment projects of the Company should be documented with a formal investment appraisal report and financial model and be jointly approved by the Investment / Project Team.

# PRINCIPAL RISKS: STAKEHOLDER RELATIONS

## LOCAL COMMUNITIES

### IMPACT

A deterioration in local community relationships may lead to disruption in day-to-day business activities, adverse perceptions about MHP's approach to human rights and negative reputational effects.

### HOW WE MANAGE IT

MHP is in regular dialogue with its local communities and other stakeholders in the regions in which it operates and aims to conduct these relationships sensitively and with mutual respect. It also prioritises the human rights of its local communities. MHP has designed and implemented stakeholder relations programmes in line with good international practice. This ac-

tivity includes regular meetings with local community representatives, roadshows to enable local people to meet the Company and the design and maintenance of a variety of communication channels. MHP also supports, designs and conducts a number of projects in conjunction with local authorities and local communities that aim to improve local standards of living and infrastructure.

## INVESTOR AND OTHER STAKEHOLDER RELATIONS

### IMPACT

Inaccurate or out-of-date information about MHP and its activities leads to negative impacts on the Company's reputation and adverse impacts on its relations with material stakeholders including its shareholders.

### HOW WE MANAGE IT

MHP maintains an experienced and well-resourced communications and investor relations team that is supported by a national and international network of professional services advisors. The team is tasked with ensuring that MHP's investor and wider communications activities are conducted in line with international good practice. The team also ensures

that information about the Company is distributed in a timely manner, is accurate and up-to-date. MHP also monitors external commentary about its activities to ensure that any inaccuracies are corrected promptly. A qualitative measurement of the Company's image is performed on a regular basis and monitored by its senior management team.

# PRINCIPAL RISKS: COMPLIANCE RISK

## LEGAL AND REGULATORY RISK

### IMPACT

The Group's businesses may be affected by regulatory developments in any of the countries in which MHP operates, including changes in fiscal, tax or other regulatory regimes. Potential impacts include higher costs to meet new environmental requirements, the possible expropriation of assets, other taxes, or new requirements for local ownership.

### HOW WE MANAGE IT

MHP's management team actively monitors regulatory developments in the countries in which the Group operates. MHP's financial control framework has adopted tax and treasury approaches fully in compliance with relevant local laws in the jurisdictions where the business is registered. MHP pays its taxes in full. Moreover, MHP is consistently developing and integrating into its business practices standards such as the Market Abuse Regulation and sustainability reporting.



## BRIBERY AND CORRUPTION

### IMPACT

A bribery or corruption incident leads to significant reputational harm, adverse stakeholder relations effects, financial penalties and threatens MHP's licence to operate.

### HOW WE MANAGE IT

MHP maintains robust anti-bribery and corruption policies and procedures which are regularly reviewed and monitored by the Audit Committee. These include a Code of Ethical Conduct and

Investigations Procedures which all employees are required to adhere to. These address matters such as bribery, gifts, supplier and customer relations, conflicts of interest and other areas of potentially corrupt activity.

## FAILURE TO COMPLY WITH THE COVENANTS UNDER LOAN AGREEMENTS

### IMPACT

A failure by MHP to comply with restrictive covenants under the terms of its indebtedness could put MHP into default.

### HOW WE MANAGE IT

Strict monitoring of compliance with the covenants is organised within the Company.

# PRINCIPAL RISKS: BUSINESS CONTINUITY RISKS

## FAILURE OF IT SYSTEMS COULD MATERIALLY AFFECT MHP'S BUSINESS

### IMPACT

MHP is becoming more dependent on IT systems and considers them critical to successful business operations. MHP relies on its IT systems in many parts of its business, including aspects of accounting records, business monitoring, execution, production of orders, invoicing, payment monitoring and health and safety. Although MHP backs up its IT systems and has a disaster recovery plan in place, the failure of IT systems could have a material adverse effect on MHP's business, operational results, financial condition and prospects.

### HOW WE MANAGE IT

A number of measures have been implemented across the Company to reduce the risk of IT systems failure. These include: the implementation of additional business continuity measures; the organisation of reserved data channels; moving services to the Cloud; and the establishment of an incident management process providing continuous support for the business. In addition, the Information Security (IS) team performs regular audits of critical IT services in order to determine any IS weaknesses and to perform penetration testing of Company vulnerabilities. It also increases employee awareness of IS risks and focusses on developing proper behaviours.



# CORPORATE RESPONSIBILITY

THIS SECTION OF THE ANNUAL REPORT IS PROVIDED TO GIVE READERS AN OUTLINE UNDERSTANDING OF THE COMPANY’S APPROACH TO CORPORATE RESPONSIBILITY MATTERS AND HOW THIS ASPECT OF THE BUSINESS IS INTEGRATED INTO ITS OVERALL STRATEGY. DETAILED INFORMATION WILL BE PROVIDED IN THE FORTHCOMING NON-FINANCIAL REPORT WHICH WILL BE PUBLISHED DURING THE SUMMER. THE NON-FINANCIAL REPORT WILL APPLY THE LATEST APPLICABLE GLOBAL REPORTING INITIATIVE (“GRI”) REPORTING FRAMEWORK.

### STRIVING TO ACHIEVE THE BEST INTERNATIONAL STANDARDS

MHP strives to achieve corporate responsibility best practice in line with international standards. Corporate responsibility forms an integral part of the Company’s long-term corporate vision. The Board views this aspect of MHP’s activities as important to the achievement of its ambition of becoming a global leader in its business sector.

### KEY FOCUS AREAS

MHP’s approach to responsible business focusses on seven key areas.

Environment & climate change	Occupational health & safety	Product quality & safety	Animal welfare	Business conduct	People	Local communities
Greenhouse gas and atmospheric emissions	Occupational health	Product hygiene	Minimum antibiotic policy	Anti-bribery and corruption	Workplace diversity	Local stakeholder engagement
Biodiversity management	Accident prevention	Product quality	Maintenance of appropriate living conditions	Regulatory and legal compliance	Equal opportunities	Effects of business activity
Water use	Provision of healthy workplaces	Scientific analysis	Constant access to balanced food and fresh water	Supplier and customer relationships	Training and development	Local infrastructure investment
Reuse, recycling and waste management		Quality of raw materials	Veterinary supervision	Product labelling and pricing	Fair working conditions	Contribution to local economic development
Energy use		Maintenance of biological safety standards	Access to high quality bedding materials	Data protection and information security	Approach to organised labour	

# OUR APPROACH

**1** **OVERALL STRATEGY**

OVERALL CORPORATE RESPONSIBILITY STRATEGY LINKED TO MHP'S AIMS & OBJECTIVES

**2** **KEY AREAS OF FOCUS**

- ENVIRONMENT & CLIMATE CHANGE
- OCCUPATIONAL HEALTH & SAFETY
- PRODUCT QUALITY & SAFETY
- ANIMAL WELFARE
- BUSINESS CONDUCT
- PEOPLE
- LOCAL COMMUNITIES

**3** **BEST PRACTICE POLICY FRAMEWORK**

BEST PRACTICE POLICY FRAMEWORK REFERENCING THE APPROPRIATE STANDARDS AND GUIDELINES AND EACH KEY AREA OF FOCUS

**4** **MANAGEMENT SYSTEMS**

TAILORED MANAGEMENT SYSTEMS FOR EACH KEY AREA OF FOCUS ADDRESSING THE RISKS AND OPPORTUNITIES THAT RELATE TO MHP'S ACTIVITIES

**5** **REPORTING & COMMUNICATIONS**

KPIs & TARGETS FIXED FOR EACH KEY AREA OF FOCUS

KPIs APPLIED IN REGULAR INTERNAL REPORTING PROCESSES

KPIs APPLIED IN COMPANY REPORTING WITH ACCOMPANYING NARRATIVE





### **POLICY FRAMEWORK**

Highlights of MHP's corporate responsibility policy framework include

#### **Environment and climate change**

- Commitment to reduce greenhouse gas emissions intensity with a long-term aim of making the Company's activities carbon neutral
- Commitment to minimise the impacts the Company's activities have on the local environment
- Commitment to minimise water use and discharges to water
- Commitment to preserve local biodiversity
- Commitment to minimise energy use and to apply renewable sources where practicable

#### **Occupational health and safety**

- Provision of a healthy and safe working environment
- Commitment to incident prevention in line with industry best practice

#### **Product quality and safety**

- Maintenance of the highest quality and safety standards in line with industry best practice and the applicable laws and regulations
- Constant monitoring of biological safety

#### **Animal welfare**

- Humane treatment of animals in line with industry best practice at all times

#### **Business conduct**

- Zero tolerance approach to bribery and corruption
- Commitment that all employees will adhere to responsible standards of business behaviour

### **People**

- Commitment to value each employee and promote equality of opportunity
- Prohibition of discrimination, forced and child labour
- Commitment to freedom of association and collective bargaining

### **Local communities**

- Commitment to build trusting and mutually beneficial partnerships
- Promotion of improvements to local living standards
- Commitment to respect human rights and the interests of local stakeholders

### MANAGEMENT SYSTEMS

MHP's policy framework is supported by comprehensive corporate responsibility management systems which have been developed in line with industry best practice and international standards.

All MHP locations employ environmental specialists and employees responsible for the maintenance of environmental standards and compliance with the relevant laws and regulations.

Occupational health and safety is governed by the Company's Labour Protection Service. As well as compliance and accident prevention, the department is tasked with raising and maintaining employee awareness of health and safety through a variety of dialogue and communications mechanisms.

Product safety and quality is of paramount importance to MHP and it is proud of its record in this area. A key aspect of its management systems is its use of internal and external laboratories to ensure this record is maintained. All are certified for compliance with ISO/IEC 17025.

Animal welfare is a natural priority and the Company's systems ensure comfortable living conditions and high standards of biological safety. Antibiotic use is prohibited at rearing sites and the Company does not use hormones or growth stimulants. Antibiotics are used selectively based on a diagnosis which indicates that their use is desirable and only with permissions from State and local entity Chief Veterinary Officers.

MHP's anti-corruption and bribery procedures include regular reviews of the Company's risk management systems by the security department and regular employee training.

MHP places significant emphasis on training and development. Procedures include the New Horizons employee development programme that enables high-performing employees to choose

areas of the business in which to further their careers and develop their knowledge base and skills.

The Company continues to develop its stakeholder engagement activities and relationships with its local communities. This includes the rollout of the stakeholder engagement plan (details may be found on the Company website at [www.mhp.com.ua](http://www.mhp.com.ua)) and a programme of investment in local infrastructure and facilities, such as "Village: Steps to Development".

### CASE STUDY – SECOND BIOGAS PLANT

MHP demonstrated its commitment to renewable energy and reducing its carbon footprint during 2018. The project is expected to reach 12MW capacity by the end of 2019. MHP's first 5MW plant reached full capacity in 2014. The new project is expected to reduce annual CO<sub>2</sub>e (carbon dioxide equivalent) emissions by approximately 85,500 tonnes.

**THE SECOND BIOGAS PROJECT IS EXPECTED TO REACH**

**24MW**

**BY THE END OF 2019**





# GOVERNANCE

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# CORPORATE GOVERNANCE OVERVIEW

WITH EFFECT FROM 7 AUGUST 2017, MHP CONVERTED FROM A PUBLIC LIMITED LIABILITY COMPANY (“SOCIÉTÉ ANONYME”) INTO A EUROPEAN COMPANY (“SOCIETAS EUROPAEA”)

MHP was established on 30 May 2006. With effect from 27 December 2017, the Company’s registered office and central administration was transferred to Cyprus and the Company is currently registered in the Cyprus Registry for SE Companies, under number SE 27. Since that date, the Company’s registered office address has been 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

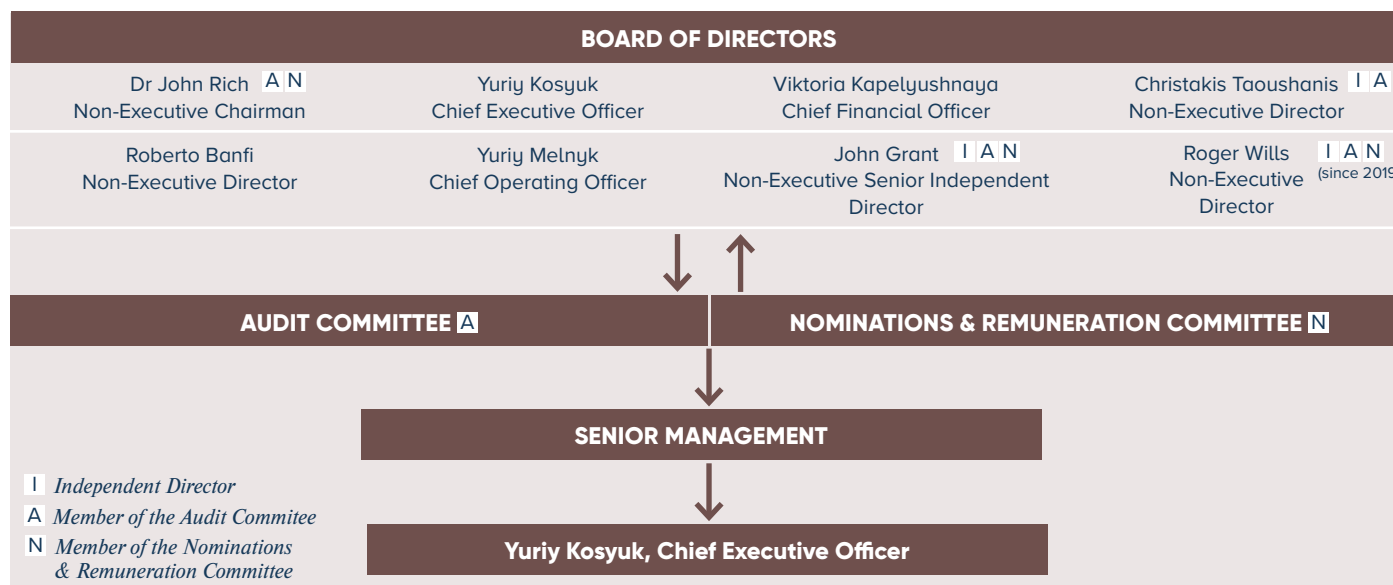
On 27 December 2017, the Company also adopted a New Memorandum and Articles of Association to comply with the provisions of the Cyprus Companies Law, Cap. 113, Council Directive 2001/86/EC of 8 October 2001, which supplements the Statute for a European company with regard to the involvement of employees, the SE Regulation and the European Public Limited – Liability Compa-

ny Regulations 2006, that are applicable in Cyprus. This New Memorandum and Articles of Association can be found here: <https://www.mhp.com.ua/library/file/memorandum-english.pdf>

The Company’s corporate governance structures, processes and procedures are outlined in its Code of Corporate Governance which can be viewed at the corporate website.

The Company upholds and practices the highest standards of ethics and integrity in its relationships with its shareholders, the Board of Directors, personnel, business community and other stakeholders including government and regulatory agencies.

## GOVERNANCE STRUCTURE



**STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE**

The Company has been steadily developing its corporate governance processes and procedures over the last few years. During 2018, it undertook important steps to develop the exper-

tise and independence of Board members through the appointment of two independent Non-Executive Directors. MHP complies with the requirements of Cypriot law and regards the UK Corporate Governance Code as the appropriate international and good practice benchmark for its approach.

It is the opinion of the Board that during 2018, the Company complied with the principles and requirements outlined in the UK Corporate Governance Code except in relation to the matters noted below.

Code Section	Principle/Code Section	Explanation
A 2.1	The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board.	Within the Company's Corporate Governance Charter, the roles of Chairman and Chief Executive Officer ("CEO") are clearly defined. The Chairman is responsible for running the Board and the CEO leads the executive management structure. At the request of the Board, and in recognition of his extensive experience, the Chairman has recently agreed to support the CEO with the conduct of certain specific strategic projects where his knowledge and expertise are particularly helpful. These involve potential acquisitions, joint ventures and related matters. This change means he can no longer be viewed as independent although the Board is satisfied, in view of his credentials, experience, expertise and independence of thought, that these arrangements are in the best interests of the Company, its shareholders and other stakeholders.
A 3.1	The Chairman should on appointment meet the independence criteria set out in the Code.	On his appointment in 2017, the Chairman had served on the Board as a Non-Executive Director since 2006. At the time of his appointment he was also employed by the International Finance Corporation as a Senior Regional Consulting Agribusiness Industry Specialist (a role that has subsequently ended). After considering the Chairman's credentials, experience, expertise and independence of thought, it is the Board's view that the Chairman was independent at the time he was appointed.
B 1.1	The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.	John Grant has served as a Non-Executive Director of the Company since 2006. In view of his extensive experience as a Board director of a wide range of major public companies in a variety of business sectors, the Board values the broad business perspective he brings to the Board and continues to view him as independent of mind and judgement.
B 2.1	A majority of members of the nomination committee should be independent non-executive directors.	During 2018 the membership of the Nominations and Remuneration Committee consisted of John Rich (Chairman) and John Grant (Independent Non-Executive Director). Subsequently the Company has expanded the Committee's membership. Membership now includes Roger Wills who is an Independent Non-Executive Director.
D	Remuneration	The Company, in common with many listed companies with the majority of their operations in Ukraine, does not disclose detailed information about director remuneration and related processes and is not legally required to do so. It is the responsibility of the Nominations and Remuneration Committee to ensure that the Executive Directors are compensated sufficiently in order to retain and attract high calibre talent and ensure that they are motivated to perform in the best interests of shareholders and other stakeholders. To date, the Company has compensated the Executive Directors mainly in the form of competitive salaries. As the Company develops, consideration will be given to adopting other forms of incentive when the Board believes that this approach will be in the best interests of shareholders and other stakeholders.
D.2.1	The board should establish a remuneration committee of at least two, independent non-executive directors. In addition, the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman.	Membership of the Nominations and Remuneration Committee during 2018 consisted of John Rich (Chairman) and John Grant (Independent Non-Executive Director). Membership now includes Roger Wills who is an Independent Non-Executive Director.

**PRINCIPAL RESPONSIBILITIES OF THE BOARD**

The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant Cyprus laws and regulations and the Articles of Association of the Company, see: <https://mhp.com.cy/corporate-governance/regulatory-documents/>.

The Company has a unitary governance structure and the Board is the ultimate decision-making body, except for the powers reserved for the Shareholders' Meeting by law or as specified in the Articles of Association (please see Board Composition on pages 81-88).

**ROLE OF THE CHAIRMAN**

The Board elects the Chairman from amongst members that meet the Board's criteria for an independent Director following the preparation of a job specification by the Nominations and Remuneration Committee. The Company's Corporate Governance Charter excludes the CEO from also becoming Chairman.

The Chairman of the Board is responsible for the proper and efficient functioning of the Board. The Chairman determines the calendar of the Board and Committee meetings and the agenda of the Board's meetings after consultation with the CEO.

Prior to each meeting, the Chairman ensures that Directors receive complete and accurate information and, to the extent appropriate, a copy of any Management presentation to be made at the Board meeting. The Chairman of the Board will also make sure that there is sufficient time for making decisions.

The Chairman is also responsible for ensuring that new Directors receive a complete and tailored induction to the Company prior to joining the Board and that existing Directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board Committees.

The Chairman of the Board represents the Board to shareholders and the public and chairs Shareholders' Meetings. The Chairman serves as the interface between the Board and major shareholders of the Company on matters of corporate governance.

**RELATIONSHIP BETWEEN THE CHAIRMAN AND THE CEO**

A clear division of responsibilities is maintained between the Chairman and the CEO. The CEO may not carry out the duties of the Chairman of the Board and vice versa.

The Chairman is required to establish close relations with the CEO by giving him support and advice while respecting the executive responsibilities of the CEO. The CEO provides the Chairman of the Board with all the information he requires to carry out his tasks.

**ROLE OF THE CEO**

The CEO reports directly to the Board of Directors. The CEO is entrusted by the Board with the day-to-day management of the Company within the strategic parameters established by the Board. He oversees the organisation and efficient day-to-day management of subsidiaries, affiliates and joint ventures.

The CEO is responsible for the execution and management of the outcome of all Board decisions. The CEO is delegated powers that are not exclusively reserved to the Board or to the Shareholders' Meeting. The CEO can delegate authority for daily management to subordinate executives but will retain ultimate accountability to the Board of Directors for the actions which are conducted during the performance of the role and the actions of delegates.

**BOARD OF DIRECTORS**

Members of the Board are elected annually by a majority vote of shareholders at the AGM and may be re-elected an unlimited number of times. At 31 December 2018, the Board had eight directors, three of whom are regarded by the Board as independent. Mr Banfi is not considered to be independent because he

has performed consultancy work for the Company. The Board considers Mr Grant to be independent notwithstanding his period of service since 2006.

In 2018, the Board conducted an annual effectiveness review in order to evaluate its performance as well as that of its Committees and individual Directors. The evaluation process was initiated by a questionnaire. The conclusions were analysed by the Board to further strengthen its composition and performance.

**CHANGES TO THE BOARD OF DIRECTORS IN 2018 AND OTHER DEVELOPMENTS**

During 2018 there were several new appointments to the Board:

- Roberto Banfi was appointed in June 2018. Please see Mr Banfi's biography on page 83;
- Christakis Taoushanis was appointed in July 2018. Please see Mr Taoushanis' biography on page 84;
- Roger Wills was appointed in December 2018. Please see Mr Wills' biography on page 85.

William Richards stepped down from the Board in October 2018 for personal work-related reasons.

**AUDITORS' REMUNERATION**

The auditor's remuneration was US\$ 1,604 thousand for the year ended 31 December 2018 (2017: US\$ 980 thousand). This includes both audit and non-audit services, with statutory audit fees amounting to US\$ 430 thousand for the year ended 31 December 2018 (2017: US\$ 420 thousand). Fees for other assurance services were US\$ 458 thousand (2017: US\$ 294 thousand); for tax advisory services US\$ 20 thousand (2017: US\$ 130 thousand); and for other non-audit services US\$ 697 thousand (2017: US\$ 136 thousand).

The Company has rules and processes in place to ensure the independence of the auditors, including non-audit fee limitations set by the Board, and prior approval by the Audit Committee of any non-audit services to ensure they do not compromise the independence of the auditors.

**DIRECTOR INDEPENDENCE**

The independence of each of the Non-Executive Directors is considered on appointment. Each year, the Board also considers the facts and circumstances relating to Director independence (and throughout the year as appropriate). This process includes an assessment of whether each Non-Executive Director is independent of management and any business or other relationships that could materially interfere with their exercise of objective, unfettered and independent judgement or their ability to act in the best interests of the shareholders. In making its decision, the Board considers relationships with management, major shareholders, associated companies and other parties with whom the Company conducts business.

Following the conduct of these processes, the Board has concluded that John Grant is an Independent Board Director. Christakis Taoushanis and Roger Wills, who joined the Board of Directors during 2018, are also regarded by the Board as Independent Non-Executive Directors.

**SENIOR INDEPENDENT DIRECTOR**

John Grant has been designated as the Board's Senior Independent Director since 2011. The Senior Independent Director is available to shareholders if they have any concerns that they cannot resolve through the normal channels (e.g. Chairman, CEO or other Non-Executive Directors). The Senior Independent Director also provides a sounding board for the Chairman, is responsible for the evaluation of the Chairman and serves as a trusted intermediary for Non-Executive Directors as and when necessary. In 2018, the Senior Independent Director received three information requests from shareholders and other stakeholders.

**CONFLICTS OF INTEREST**

The Board has formal procedures in place to manage conflict of interest matters. Each Director is required to inform the Board of any other Directorship, office or responsibility, including executive positions that are taken up outside the Company during the term of office. If, in the opinion of the Board, a conflict of interest

exists, the relevant Director does not participate in discussions and will abstain from a Board vote on the affected matter.

The Company's Conflict of Interest Policy covers any transactions involving conflicts of interest (whether actual or potential) of:

1. MHP's Management team members, including Directors of subsidiaries and branches ("key management");
2. MHP's line managers who have authority to authorise transactions on behalf of MHP ("line managers"); and
3. other MHP employees who are authorised to approve or have the power to influence significant transactions, changes in policy or business strategy.

**CONFIDENTIAL INFORMATION**

All Board Directors are required to keep information received in their capacity as Directors confidential and may not use it for any purpose other than for fulfilling their remit.

**OTHER PROFESSIONAL COMMITMENTS**

Every Director is required to allocate the time and attention required for the proper fulfillment of their duties. This commitment includes limiting the number of other professional commitments to the extent required.

**INFORMATION AND PROFESSIONAL DEVELOPMENT**

The Board ensures that Directors, especially Non-Executive Directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. Board Committees are also provided with sufficient resources to undertake their duties. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. The Company's Executive Management team is obliged to provide such information and Directors to seek clarification or amplification where necessary.

**INTERNAL CONTROL AND RISK MANAGEMENT**

The Board of Directors is ultimately responsible for the Company's governance, risk management, internal control environment and processes and reviews their effectiveness at least annually.

Once identified, risks are evaluated to establish financial or non-financial impact and the likelihood of their occurrence. For risks assessed as significant, a mitigation action-plan is determined by the operational business management team. The summary of key risks is regularly discussed with MHP's management team and annually reported to the Board of Directors through the Audit Committee. The Company has Internal Audit in place, providing objective assurance to the Management and to the Audit Committee on the effectiveness of risk management and helping management to continuously improve its risk management framework and process.

A summary of the Company's framework for managing risks, the Company's key business risks together with the actions taken to mitigate them can be found on page 59 of this Report.

**INTERNAL AUDIT**

The Company maintains an internal audit function. The Head of Internal Audit has the right of access to the Audit Committee and the Chairman. The Head of Internal Audit reports to the Audit Committee which is responsible for:

- Monitoring and reviewing the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- Approving the appointment and removal of the Head of Internal Audit;
- Approving the remit of the internal audit function;
- Ensuring it has adequate resources and is free from management or other restrictions;

- Agreeing the internal audit plan;
- Reviewing internal audit reports;
- Monitoring management responses to internal audit recommendations; and
- Meeting the Head of Internal Audit annually, without management being present, to discuss the department's remit and any issues arising from the internal audit work carried out.

### FINANCIAL REPORTING PROCESS

MHP has in place a comprehensive financial review cycle which includes a detailed annual budgeting process. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board of Directors.

Major commercial and financial risks are assessed as part of the business planning process. There is a comprehensive system of financial reporting, with monthly performance reports presented to the Board of Directors.

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

### COMPENSATION OF KEY MANAGEMENT PERSONNEL

Total compensation of the Group's key management personnel amounted to US\$ 16,809 thousand for the year ended 31 December 2018 (2017: US\$ 14,143 thousand). Compensation of key management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's Non-Executive Directors, which consists of contractual salary, amounted to US\$ 1,106 thousand in 2018 (2017: US\$ 460 thousand).

Key management personnel totalled 31 and 35 individuals as of 31 December 2018 and 2017 respectively.

### DIRECTORS AND OFFICERS LITIGATION STATEMENT

No member of the Board of Directors or of MHP's senior management has, for at least five years:

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

### SHARE OPTIONS

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

### ADDITIONAL DISCLOSURES

At the date of this Annual Report, no takeover bids have been made for the Company's shares. According to the terms of the Senior Notes, the Company may be required to offer to repurchase the Senior Notes from holders if a change in control occurs as a result of a takeover bid.

There are no agreements between the Company and its Directors or employees providing for compensation on loss of office or employment (whether through resignation, purported redundancy or otherwise) that would occur because of a takeover bid.

## COMMITTEES

### NOMINATIONS AND REMUNERATION COMMITTEE

Dr John C Rich, Chairman  
John Grant  
Roger Wills (from March 2019)

The Committee's main tasks are disclosed in the updated 2018 Corporate Governance Charter (Annex E): <https://www.mhp.com.ua/library/file/corporate-governance.pdf>

During 2018, the Committee held four meetings and all of the Committee members attended. The Nominations and Remuneration Committee Report is provided in a separate section of the Annual Report on page 89.

### AUDIT COMMITTEE

John Grant, Chairman  
Dr John C Rich  
Christakis Taoushanis (from November 2018)  
Roger Wills (from March 2019)

The Committee's main tasks are disclosed in the updated 2018 Corporate Governance Charter (Annex D): <https://www.mhp.com.ua/library/file/corporate-governance.pdf>

During 2018, the Committee held four meetings and the average attendance of Committee members was 100%.

The Audit Committee Report is provided in a separate section of the Annual Report on page 91.



# BOARD OF DIRECTORS

## DR JOHN C RICH

### Board and committee interests

- Non-Executive Chairman
- Chairman of the Nominations and Remuneration Committee
- Member of the Audit Committee

### Tenure

Dr Rich joined the Board in 2006. In 2016 he was named interim Chairman of the Board of Directors of MHP S.A. and Chairman of the Nominations and Remuneration Committee. In 2017, the Board confirmed his appointment as Chairman on a permanent basis. The Corporate Governance Overview on page 77 of this Report explains that Dr Rich has recently agreed to accept responsibilities which mean he will no longer be regarded as independent.

### Nationality

Australian

### Career and prior experience

From 1990 to 2003, Dr Rich was an executive director of Austasia Pty Ltd, an agri-business conglomerate that has operations in Australia, South East Asia and China. From 1995 to 2002 he was a director of AN-OSI Pty Ltd, a company that specialised in supply-chain management for feedlot beef, poultry and dairy operations in Asia and Europe. Dr Rich was a specialist agri-business consultant for the IFC and IFC-invested clients until 2018.

Dr Rich holds a BSc and a BVSc from the University of Sydney, is a member of the Australian College of Veterinary Scientists and a registered financial member of the Australian College of Veterinary Surgeons. He has completed a number of post-graduate courses in agricultural and food-related industries.

### Other current roles

- Managing Director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC)

### Relevant skills and experience

- Industry
- Operations
- Regulatory / risk



**JOHN GRANT****Board and committee interests**

- Senior Independent Director
- Chairman of the Audit Committee
- Member of the Nominations and Remuneration Committee

**Tenure**

Mr Grant joined the Board in 2006.

**Nationality**

British

**Career and prior experience**

Mr Grant's previous non-executive director roles included Chairman of Gas Turbine Efficiency plc, Hasgo Group Limited, Motor Sports Association Limited and Torotrak plc. He was also Senior Independent Director of Melrose plc, Pace plc and Wolfson Micro-electronics plc and a non-executive director of National Grid plc, Corac Group plc and the Royal Automobile Club Limited.

In his executive career, he was Finance Director of Lucas Industries plc and LucasVarity plc from 1992 to 1996, and before that Director of Corporate Strategy for Ford Motor Company and Executive Deputy Chairman of Jaguar Cars.

Mr Grant holds a BSc in Economics from Queen's University Belfast, an MBA from Cranfield School of Management and an Honorary Doctorate of Engineering from the University of Bradford.

**Other current roles**

- Non-Executive Director of Augean Plc, a UK-based hazardous waste management business
- Chairman of the British Racing Drivers' Club Limited

**Relevant skills and experience**

- Finance
- Strategy
- Operations



**ROBERTO BANFI****Board and committee interests**

- Non-Executive Director

**Tenure**

Mr Banfi joined the Board in June 2018. He had been an advisor to the Board of MHP since 2016.

**Nationality**

Italian

**Career and prior experience**

Formerly a Specialised Corporate Consultant for BRF, Mr. Banfi was involved in scouting entries into new markets, mainly India and Malaysia. From January 2014 to May 2016 he was BRF's General Manager for Europe and Eurasia, at that time a € 1 billion operation generating very positive results.

Mr. Banfi was at Sadia S.A from 1998 to 2009 in various executive positions including Director of Sales & Marketing for the Brazilian market, Director of Global Sales and GM for the Russian and Middle East & North Africa regions. This was followed by four years as an independent consultant in agri-business operations in Latin America and board membership of a Saudi poultry operation until the end of 2013.

Before joining Sadia, he was Director of National Sales in Brazil for Best Foods (nowadays part of Unilever) after gaining experience in Category Management for global corporate brands including Knorr, Hellmann's, Mazola and Ades. He served as a Director at Swift Armor Brazil and Cica, at that time the leading canned food processor in Latin America.

Born and raised in Europe, Mr Banfi has lived and worked extensively in the USA, Central and South America, Brazil, Russia, Europe and the Middle East. Mr. Banfi received his MBA from Stanford University, California and an undergraduate degree from HEC - Lausanne, Switzerland.

**Other current roles**

- An Independent Consultant in the Food sector covering several geographic regions and specialising in animal proteins

**Relevant skills and experience**

- Industry
- Operations



**CHRISTAKIS TAOUSHANIS****Board and committee interests**

- Non-Executive Director
- Member of the Audit Committee

**Tenure**

Mr Taoushanis joined the Board in July 2018.

**Nationality**

Cypriot

**Career and prior experience**

Mr Taoushanis has 30 years' of banking experience, having worked for four years with Continental Illinois National Bank of Chicago in Chicago and Greece; for 18 years with the HSBC Group in Hong Kong and Cyprus (the last 12 years as the Managing Director in Cyprus); and for eight years as the Chief Executive Officer of the Cyprus Development Bank.

He is a non-executive member of the boards of various regulated and/or listed companies, mostly with international interests, such as iSignthis, Capital Intelligence and Louis. He served as non-executive director of numerous firms and associations, including Aker Cyprus, Association of Cyprus Commercial Banks (Chairman), Bank of Cyprus, Coca Cola Hellenic (Lanitis Bros – a subsidiary), Cooperative Central Bank (Chairman), Forthnet and TDE.

Mr Taoushanis is a graduate of the London School of Economics and London Business School.

He has been active in the local Cypriot community and charitable organisations such as Cyprus Rotary and Phaneromeni Church.

**Other current roles**

- A member of the board of various regulated and/or listed companies, mostly with international interests
- Advisor to a number of companies through the private firm, TTEG & Associates

**Relevant skills and experience**

- Finance



**ROGER WILLS****Board and committee interests**

- Non-Executive Director
- Member of the Audit Committee (since 19 March 2019)
- Member of the Nominations and Remuneration Committee (since 19 March 2019)

**Tenure**

Mr Wills joined the Board in December 2018.

**Nationality**

New Zealand

**Career and prior experience**

Mr Wills was born and raised in New Zealand and graduated from the University of Otago, New Zealand with majors in Accounting and Finance. He then embarked on travel overseas and worked in London in various finance roles before taking up a management consulting role with Coopers & Lybrand in Russia in 1995. Mr Wills joined leading Russian investment banking group Brunswick in 1998 and held various senior management roles in the Brunswick and UBS groups before being appointed CEO of Brunswick Capital in 2003.

Mr Wills has held several non-executive directorships including Cherkizovo Group (2017-2018), the leading Russian producer of meat products, and T-Plus Group (2015-current), a major Russian listed electric and thermal energy group.

**Other current roles**

- Since 2007 Mr Wills has managed his own family office and focussed on investment opportunities in private equity, venture capital and public markets with a focus on emerging markets and Eastern Europe

**Relevant skills****and experience**

- Accounting and Finance
- Industry (Poultry, Meat and Agriculture)



**YURIY KOSYUK****Board and committee interests**

- Chief Executive Officer

**Tenure**

Mr Kosyuk founded MHP in 1998 and is also the CEO of PJSC MHP.

**Nationality**

Ukrainian

**Career and prior experience**

In 1995 Mr Kosyuk founded the Business Centre for the Food Industry (BCFI) in Kyiv, Ukraine and was President until 1999. BCFI operated in the domestic and export markets for grain and other agricultural products.

Mr Kosyuk graduated in 1992 as a processing engineer in meat and milk production from the Kiev Institute of the Food Industry.

**Other current roles**

- None

**Relevant skills and experience**

- Industry
- Operations
- Regulatory / risk



**YURIY MELNYK****Board and committee interests**

- Chief Operating Officer

**Tenure**

In July 2010, Mr Melnyk was appointed First Deputy CEO of MHP.

**Nationality**

Ukrainian

**Career and prior experience**

Prior to joining MHP, Mr Melnyk held the position of Agricultural Minister for Ukraine and Deputy Prime Minister of Ukraine, as well as serving as an advisor to the Prime Minister of Ukraine.

Mr Melnyk is a Doctor of Agriculture and has been a correspondent member of the National Academy of Sciences of Ukraine since 2002. In 2004 he was awarded the State Prize of Ukraine in science and technology. He graduated from the Academy of Agriculture of Ukraine as a Zoo Engineer in 1985.

**Other current roles**

- None

**Relevant skills and experience**

- Industry
- Agriculture



**VIKTORIA KAPELYUSHNAYA****Board and committee interests**

- Chief Financial Officer

**Tenure**

Ms Kapelyushnaya joined MHP in 1998 and was appointed to the Board in 2006. She is also Finance Director at PJSC MHP.

**Nationality**

Ukrainian

**Career and prior experience**

Ms Kapelyushnaya was previously Deputy Chief Accountant and subsequently Chief Accountant of the Business Centre for the Food Industry (BCFI).

She holds diplomas in meat processing engineering (1992) and financial auditing (1998) from the Kiev Institute of the Food Industry.

**Other current roles**

- None

**Relevant skills and experience**

- Industry
- Finance
- Regulatory / risk





# NOMINATIONS AND REMUNERATION COMMITTEE REPORT

THE NOMINATIONS AND REMUNERATION COMMITTEE (“THE COMMITTEE”) HAS OVERALL RESPONSIBILITY FOR MAKING RECOMMENDATIONS ON ALL NEW APPOINTMENTS TO THE BOARD

It also has responsibility for ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence, diversity and knowledge of the Company to enable members to discharge their respective duties and responsibilities effectively; and for setting the remuneration policies across the Company.

MEMBER	NO OF MEETINGS
<b>Dr John Rich</b> (Chairman)	4/4
<b>John Grant</b>	4/4

Dr John Rich,  
Chairman, Nominations  
and Remuneration Committee



**THE PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE ARE TO:**

- a. ensure the Company has exceptional people who occupy appropriate positions and who have the necessary incentives to achieve, and are fully compensated for, exceptional performance;
- b. set the overarching principles and parameters of Remuneration Policy across the Company; and
- c. review the Company's workforce requirements and ensure sufficient depth of management to support expansion and succession.

The Committee is expected to meet not less than twice a year. During 2018, the Committee met four times and the attendance of its members at these Committee meetings is shown in the table above. The Committee's terms of reference, which were last revised in May 2018, are available to view on the Company's website in the Corporate Governance Charter (Annex E) at <https://www.mhp.com.ua/library/file/corporate-governance.pdf>.

Further details regarding the Committee's composition, areas of focus in 2018 and diversity policy are set out below.

**COMPOSITION**

The Corporate Governance Overview on page 76 of this Report explains that the Committee's Chairman, Dr John Rich, has recently agreed to accept responsibilities which mean he will no longer be regarded as independent. The Committee has therefore been strengthened by the appointment of a further independent Non-Executive Director. Roger Wills was appointed to the Committee on 19 March 2019. His biography can be found on page 85.

The Committee was chaired by Dr John Rich. John Grant also served on the Committee throughout the year. The Company Secretary acts as secretary to the Committee. On occasion, the Committee invites the Chief Executive, the Chief Financial Officer or the Group HR Director to attend discussions where their input is required.

**AREAS OF FOCUS IN 2018**

The principal focus of the Committee during 2018 was to consider the items set out below.

- The Committee considered the composition and balance of the Board and the timing of future Board changes. It also reviewed the succession plans in place in respect of Executive Directors and Non-Executive Directors in conjunction with the provisions of the UK Corporate Governance Code and best practice. Specifically, the Committee accepted the resignation of Mr Will Richards from the Board due to his inability to meet the necessary time commitments required by MHP's Board duties. The Committee appointed Mr Roberto Banfi, an industry expert, to add to the Board's level of skills. The Committee also appointed Mr Roger Wills, an experienced finance executive with significant experience in Russia and Eastern Europe who was previously employed by Coopers & Lybrand, Moscow followed by leading investment banks Brunswick and UBS in Russia. Mr Wills has prior experience at Board level in the poultry, meat and agriculture industries. Christakis Taoushanis was also appointed to the Board and brings with him over 30 years' experience in banking in Europe, the US and Asia. The Committee continued throughout the year and beyond to look for opportunities to strengthen the Board.
- The Committee considered and approved the continuing education programme for Non-Executive Directors for 2019. This includes membership of the Institute of Directors (IoD) and attendance at courses run by the IoD's and Deloitte's respective academies. In addition, a plan of continuing education recommendations has been made for senior management executives with an emphasis on courses being held at well known institutions in the UK and the USA.
- The Committee conducted a remuneration review of the Board and the senior management team. During 2018 new senior management salaries were recommended and adopted.

**DIVERSITY POLICY**

The Board recognises the importance of fully considering diversity matters (including ethnicity, social background, creed, gender and age) when ensuring that the best candidates are selected for membership of the Board and to ensure that the Board has an optimal blend of experience and knowledge. It is committed to the principles of equality of opportunity for all employees.

Dr John Rich  
Chairman, Nominations  
and Remuneration Committee  
1 April 2019

**THE COMMITTEE IS EXPECTED  
TO MEET NOT LESS  
THAN TWICE A YEAR**

# AUDIT COMMITTEE REPORT

I AM PLEASED TO PRESENT THE 2018 REPORT OF THE AUDIT COMMITTEE, WHICH DESCRIBES HOW THE COMMITTEE HAS CARRIED OUT ITS RESPONSIBILITIES DURING THE YEAR

The Audit Committee (“the Committee”) is responsible for the integrity of the Group’s financial reporting and its internal control and risk management processes. The Committee also makes recommendations to the Board on the appointment of external and internal auditors, and oversees their activities.

MEMBER	NO OF MEETINGS
<b>John Grant</b> (Chairman)	4/4
<b>John Rich</b>	4/4
<b>Will Richards</b> (resigned October 2018)	3/3
<b>Christakis Taoushanis</b> (appointed November 2018)	1/1

Mr John Grant,  
Chairman, Audit Committee



**ROLE AND RESPONSIBILITIES**

The Committee's role and responsibilities are set out in its terms of reference, which can be viewed on the Company's website in the Corporate Governance Charter (Annex C) at <https://www.mhp.com.ua/library/file/corporate-governance.pdf>. The Committee is responsible for protecting the interests of shareholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit.

The Committee is responsible specifically for:

- reviewing and monitoring the integrity of the financial statements, including the Annual Report and any formal announcements relating to financial performance;
- ensuring compliance with legal and regulatory requirements;
- keeping under review the effectiveness of the Company's financial reporting, risk management and internal control systems;
- reviewing the independence, objectivity and effectiveness of the external auditors, and making recommendations to the Board regarding the appointment, re-appointment and replacement of external auditors and their terms of engagement;
- reviewing policy and practice regarding provision of non-audit services by the external auditor;
- considering the requirement for, and monitoring the effectiveness of, internal audit;
- ensuring compliance with accounting standards and consistency of accounting policies;
- reviewing and challenging the going concern assumption; and
- reviewing the Annual Report and financial statements to ensure they are fair, balanced and understandable.

**COMPOSITION**

At the end of 2018, the Committee comprised three Non-Executive Directors. Two of these Directors are considered by the Board to be independent. The Chairman of the Committee is John Grant, who has recent and relevant financial experience in a wide range of senior Non-Executive roles (see biography on page 82).

The Corporate Governance Overview on page 76 of this Report explains that Committee member, Dr John Rich, has recently agreed to accept responsibilities which mean he will no longer be regarded as independent. The Committee has therefore been strengthened by the appointment of two further independent Non-Executive Directors. Christakis Taoushanis joined the Committee in November 2018 and Roger Wills was appointed to the Committee on 19 March 2019. Their biographies can be found on pages 84 and 85.

The Committee Chairman invites the Chief Financial Officer, the Head of Internal Control, the Head of Internal Audit and senior representatives of the external auditor to attend meetings as appropriate. The Committee has the right to invite any other director or employee to attend meetings as it considers appropriate.

The Committee meets with the external auditors at least once a year in the absence of management.

**MEETINGS IN THE YEAR**

The Committee meets at least four times a year. The scheduling of meetings is intended to align with the financial reporting timetable, enabling the Committee to review the annual and quarterly financial statements, to agree the audit plan in advance of the full year audit, and to maintain oversight of the Group's internal controls and processes. In 2018, the Committee met four times. The attendance of members at these meetings is shown in the table at the previous page.

**SIGNIFICANT ISSUES RELATED TO THE FINANCIAL STATEMENTS**

The Committee undertook the following recurring activities in relation to the financial statements:

- reviewed and agreed the scope of the audit work to be undertaken by the external auditor;
- considered the external auditor's report on their audit of the full year results;
- reviewed the Annual Report and annual and quarterly financial statements to ensure they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy, and advised the Board accordingly;
- considered the processes in place for the valuation of assets, including the reasonableness and consistency of assumptions; and
- reviewed the effectiveness of the Company's risk management and internal controls.



**MEETINGS  
IN 2018**

## AREAS OF FOCUS FOR THE FINANCIAL STATEMENTS

Significant issue considered	How the issue was addressed by the Committee
<p><b>VALUATION OF PROPERTY, PLANT AND EQUIPMENT</b></p> <p>Except for land and other fixed assets that are carried at historical cost less accumulated depreciation, all other groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses.</p>	<p>The Committee reviewed management's approach, including the use of an independent external valuation expert, and confirmed with the auditors that they had assessed the competence and independence of the valuer and verified that the methods and assumptions used were appropriate and consistent with accounting standards.</p>
<p><b>VALUATION OF BIOLOGICAL ASSETS</b></p> <p>Valuation of biological assets requires the use of complex models and a number of assumptions to arrive at fair values.</p>	<p>The Committee reviewed the assumptions and judgements applied by management and verified the reasonableness of input data and the accuracy of calculations.</p>
<p><b>REVENUE RECOGNITION</b></p> <p>There is a presumed risk of misstatement on revenue recognition due to fraud.</p>	<p>The Committee confirmed that appropriate procedures had been undertaken to address the risk.</p>
<p><b>COMPLIANCE WITH BOND AND BANK COVENANTS</b></p> <p>Continued compliance with covenants included in bond and bank debt agreements is a prime focus for the Committee.</p>	<p>The Committee verified that appropriate stress tests, taking account of potential depreciation of the Ukrainian currency, had been performed and that it was satisfied with the Company's position.</p>
<p><b>TAX RISKS</b></p> <p>In view of the ambiguity of tax legislation, certain transactions may be challenged by the relevant governmental authorities.</p>	<p>The Committee confirmed that tax and legal experts had been engaged to evaluate the Company's tax position and that they had reviewed the adequacy and accuracy of tax contingency disclosures in the financial statements.</p>
<p><b>UKRAINE COUNTRY RISK</b></p> <p>In view of the continuing crisis in Ukraine, the Committee required assurance that the implications had been fully recognised in considering the Company's status as a going concern.</p>	<p>The Committee ensured that appropriate procedures had been followed to evaluate the Company's exposure to political, economic and legal risks. The Committee confirmed that appropriate safeguards were in place to mitigate these risks, and that all relevant disclosures were made in the financial statements.</p>
<p><b>GOING CONCERN</b></p> <p>Assessment of the going concern assumptions, taking account of political and economic uncertainties in Ukraine.</p>	<p>The Committee reviewed the assumptions underlying the assessment of the Company's ability to continue as a going concern and, after considering the stress tests undertaken by the auditor, supported management's recommendation that the going concern assumption continued to be appropriate.</p>



**EXTERNAL AUDIT****Auditor rotation**

In accordance with European regulatory requirements and the guidance provided by the Competition and Markets Authority regarding the statutory audit of public-interest entities, the Company was required to conduct a tender process to select the provider of the statutory audit with effect from the 2017 financial year. Deloitte Audit S.a.r.l. (Luxembourg) had been the Company's auditor since 2003. As reported previously, at the conclusion of a comprehensive selection process, in December 2016 the Committee decided, based on its assessment of which of the four candidate firms had the strongest capabilities, that Deloitte Audit S.a.r.l. should be re-appointed as statutory auditor.

In October 2017, due to the migration of the corporate office from Luxembourg to Cyprus, the Company's shareholders resolved to terminate the mandate of Deloitte S.a.r.l. and to appoint Deloitte Cyprus as the auditor of the Company. It was noted that there had been no conflict with Deloitte S.a.r.l.'s audit report.

**Assessment of effectiveness**

The Committee assessed the effectiveness of the auditor following completion of the audit of the 2017 accounts. The Committee remains satisfied with the quality, integrity and effectiveness of the work undertaken by the external auditor.

**Non-audit services**

A policy is in place covering engagement of the external auditor for the supply of non-audit services to ensure that its independence and objectivity are not impaired. An analysis of fees earned by the external auditor for audit and non-audit services can be found in Note 8 to the financial statements.

EU and Competition Commission rules that became effective in 2016 specify that the cost of non-audit services provided by the external auditor will be limited to 70% of the average audit fee for the previous three years. As no cap applies during the first three years, the first year for which the cap applies will be 2020.

This is not expected to have a material impact on the Company. It is the Committee's intention to ensure future non-audit services are provided by a number of different firms to ensure both independence of the external audit and best quality and best value provision of non-audit services.

**Auditor objectivity and independence**

The Committee has a policy and procedures in place to ensure that auditor independence and objectivity are never compromised. These include approval requirements for engagement of the external auditor for non-audit services, periodic review of the cost of non-audit services provided by the external auditor and requirements for rotation of the audit partner every 7 years. Each year, the auditor is required to provide evidence to the Committee of how it believes its independence and objectivity have been maintained. Based on these requirements and procedures, the Committee remains confident that auditor independence and objectivity have been maintained.

**INTERNAL AUDIT**

The Company has an Internal Audit function whose primary purpose is to provide independent assurance to management and the Committee, and hence the Board, on the Company's risk management and control environment. Internal Audit coverage includes all of the Company's operations, resources, services and responsibilities to other bodies, with no department or business unit of the Company being exempt from review.

Internal Audit responsibilities include:

- examining and evaluating the adequacy of the Company's system of internal control;
- assessing the reliability and accuracy of information provided to stakeholders;
- assessing compliance with statutory and regulatory requirements;
- assessing compliance with Company policies and procedures;
- ensuring that the Company's assets are properly accounted for and safeguarded;

- assessing the efficiency and effectiveness with which resources are employed;
- liaising with external auditors in audit planning and assisting the external auditors as required; and
- investigating any instances of fraud, irregularity or corruption.

The Internal Audit programme is approved annually by the Committee and the Head of Internal Audit reports findings periodically to the Committee. Following the resignation of the previous incumbent, a new Head of Internal Audit was appointed in May 2018.

**RISK MANAGEMENT AND INTERNAL CONTROL**

The Committee monitors the effectiveness of the Company's risk management and control systems through regular updates from management, reviews of the key findings of the external and internal auditors and an annual review of the risk management process and risk matrix. Results are reported regularly to the Board, which has overall responsibility for risk management.

The annual review covers key risks that could potentially impact the achievement of MHP's strategic and financial objectives. New risks and changes in existing risks are identified on a continuous basis. A risk scoring system is used to help quantify both the probability and potential impact of each major risk after the effect of mitigating actions, to assess residual risks against the Company's risk appetite and to prioritise further risk management actions. The Company's approach to the identification and assessment of risks, and the response to risks, is based on best business practices and international COSO Enterprise Risk Management standards.

No incidents of significant control weaknesses or failures were identified at any time during the year.

John Grant  
Chairman, Audit Committee  
1 April 2019

# MANAGEMENT REPORT

DISCLOSURES ELSEWHERE IN THE ANNUAL REPORT ARE CROSS-REFERENCED WHERE APPROPRIATE. TAKEN TOGETHER, THEY VOLUNTARILY FULFIL THE MAJORITY OF THE COMBINED REQUIREMENTS OF THE UK COMPANIES ACT 2006, THE UK DISCLOSURE AND TRANSPARENCY RULES, THE LISTING RULES OF THE UK FINANCIAL CONDUCT AUTHORITY AND THE UK CORPORATE GOVERNANCE CODE. THE COMPANY'S MINIMUM LEGAL REQUIREMENT IS TO COMPLY WITH THE REPORTING OF DISCLOSURE REQUIREMENTS OF CYPRUS, WHERE IT IS DOMICILED

## PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

MHP is a leading international agro-industrial company and the largest producer of chicken in Ukraine\*. The Company operates a vertically-integrated business model, owning and operating each of the key stages of chicken production processes, with the objective of maximising self-sufficiency and efficiency in production costs by consolidating multiple steps in the value-chain.

The business is organised into and operates through three business segments: Poultry and Related Operations Segment; Grain Growing Operations Segment; and Other Agricultural Operations Segment.

Key to the Company's approach to managing waste and minimising its use of energy is MHP's biogas programme, which enables the recycling of waste including husk and manure. Its first plant, with 5 MWs of capacity, is in operation and a further biogas complex with 24 MWs of capacity is under construction.

## POULTRY AND RELATED OPERATIONS SEGMENT

The Poultry and Related Operations Segment produces and sells chicken meat (fresh and frozen), vegetable oils (sunflower and soybean) and mixed fodder. It incorporates three poultry farms and two breeding farms, three sunflower oil plants, two soybean crushing plants and three feed mills.

2018 production figures were as follows:

- Three chicken meat complexes produced 617,943 tonnes of chicken meat;

- Two breeding farms produced 459,309,450 hatching eggs;
- Three sunflower oil plants produced 314,115 tonnes of oil;
- One soybean crushing plant produced 39,066 tonnes of oil; and
- Three feed mill plants produced 1,660,958 tonnes of meal.

## GRAIN GROWING OPERATIONS SEGMENT

The Grain Growing Operations Segment grows crops for fodder production and for sale to third-parties.

In 2018 MHP's total landbank constituted 378,293 hectares (ha) of land of which 369,314 ha were in grain cultivation incorporating a number of arable farms in Ukraine. MHP harvested 362,820 ha of land yielding 2,654,422 tonnes of crops.

Grain storage facilities were 1,590,000 m<sup>3</sup> and 694,395 tonnes capacity in plastic bags.

## OTHER AGRICULTURAL OPERATIONS SEGMENT

The Other Agricultural Operations Segment predominantly produces and sells sausage and cooked meat, convenience foods and produce from cattle and milk operations.

It incorporates two facilities for producing prepared meat products and a number of mixed farms. The meat-processing operation is the Segment's flagship business, producing 33,975 tonnes of meat-processing products and 17,997 tonnes of convenience foods in 2018.

\* Source: SSCU

**FUTURE DEVELOPMENTS**

The Executive Management team believe there are ample opportunities for growth both internationally and within Ukraine. In Ukraine, customers tend to buy domestically produced chicken, choosing from the wide range of poultry products that MHP develops and offers to its customers. These products are both more affordable than pork and beef and fresher than imported meat. Exports of chicken meat balance MHP's total sales and provide higher margins compared to local sales.

**MHP's strategy is:**

- To expand poultry production capacity during the period 2019-2022;
  - To explore merger and acquisition opportunities and to potentially acquire further meat-processing and/or poultry production businesses in the EU and/or MENA regions;
  - To continue export expansion through sales diversification and market targeting;
  - To continue establishing international sales and distribution offices and potentially joint ventures;
  - To increase production efficiency through modernisation and innovation, improvement in cost and quality control, use of up-to-date technology, and increased vertical integration;
- To maintain its “continuous improvement” approach to the Company’s already high biosecurity standards, environmental standards, health and safety procedures and animal welfare practices;
  - To promote and develop the Company’s strong brands through consumer-driven innovation and the introduction of new products;
  - To increase the Company’s presence in value-added food products such as processed meat and convenience food;
  - To expand alternative energy projects (e.g. biogas);
  - To potentially expand the Company’s landbank to around 500,000 hectares over the medium term in order to further reduce the dependence on third-party suppliers of ingredients for fodder, and to provide additional hard currency revenues from grain export sales; and
  - To continue to develop our local stakeholder relationships in partnership with our local communities and business partners.



**BOARD MEETINGS**

During 2018, the Board of Directors held six meetings with a 100 % attendance rate. Directors attended meetings in person and occasionally via conference call. The Board of Directors has also approved their decisions through 18 circular resolutions.

The Board conducts regular effectiveness reviews in order to evaluate its performance as well as that of its committees and individual Directors. The evaluation process is normally initiated by a questionnaire and then supplemented by individual interviews by the Chair with each of the Directors. The conclusions are analysed by the Board to further strengthen its composition and performance.

At the end of each year, MHP's Non-Executive Directors have a regular meeting to discuss and to evaluate the performance of the executive Directors. The latest meeting took place in London, UK, in December 2018. The results of the evaluation are usually communicated to executive Directors at the first Board meeting of the following year.

**AGM**

The next AGM will take place on 19 June 2019 at noon at 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

The 2019 AGM notice will be posted on the Company's website at <https://www.mhp.com.ua/en/investor-relations/corporate-governance/MHP-S-E-Cyprus/annual-general-meeting>.

**BOARD OF DIRECTORS**

The biographical details of the current serving Directors are set out on pages 81 to 88.

The Directors who served during the year were: Mr Roberto Banfi (appointed to the Board in June 2018); Mr John Grant; Ms Viktoria Kapelyushnaya; Mr Yuriy Kosyuk; Mr Yuriy Melnyk; Mr William Richards (stood down from the Board in October 2018); Dr John Rich; Mr Christakis Taoushanis (appointed to the Board in July 2018); and Mr Roger Wills (appointed to the Board in December 2018).

More information on Board developments and changes during the year can be found in the Chairman's Statement on pages 18 to 21.

**DIRECTORS' INTERESTS**

The interests of Non-Executive Directors in MHP's GDRs are shown in the table below.

<b>John Rich</b>	25,000
<b>John Grant</b>	17,000
<b>Roberto Banfi</b>	15,000

**DIRECTORS' INDEMNITY ARRANGEMENTS**

The Directors have the benefit of a Directors' liability insurance policy and the Company has entered into qualifying third-party indemnity arrangements with them, as permitted by the Companies Act 2006. The policy was in force throughout 2018, at the year end, and continues in force at the date of this Report. The Directors are permitted to take independent legal advice at the Company's expense within set limits in furtherance of their duties.

**DIVIDEND POLICY**

In March 2013 the Board of Directors approved the adoption of a dividend policy that maintains a balance between the need to invest in further development and the right of shareholders to share the net profits of the Company.

The dividend policy confirms the Company's intention to pay annual dividends to shareholders. The Company paid dividends of US\$ 80 million in 2018 (2017: US\$ 80 million).

The Board has recommended an interim dividend of US\$ 0.7474 per share, amounting to US\$ 80 million (2017: US\$ 0.7492 per share).

**SIGNIFICANT SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

In December 2018, the Group exchanged 256,414 of its shares in the form of GDRs held in treasury to increase its effective

ownership interest in Agrofort to 100% through the acquisition of a non-controlling interest.

**RESEARCH AND DEVELOPMENT**

Sustaining significant investment in R&D is fundamental to the Company's long-term growth strategy.

MHP employs state-of-the-art technology throughout its operations. Our target is to sustain our position as a world leader in poultry production, cost control and efficiency levels at the same time as adopting a sustainable and responsible approach to society, the environment and animal welfare.

**BUSINESS REVIEW AND RISKS**

A review of the Group's performance and the key risks and uncertainties which face the business as well as details on likely developments can be found in the Chairman's Statement on pages 18 to 21 and Risk Management on pages 58 to 70 of this Report.

**CORPORATE RESPONSIBILITY REPORTING**

The Group initiated Corporate Responsibility reporting in 2015 and issues a separate Corporate Responsibility Report (Non-Financial Report) annually. This Report includes information for MHP's material stakeholders and applies the latest applicable GRI reporting framework.

The latest Corporate Responsibility Report (Non-Financial Report) is for 2017 and can be found in the "Sustainable Development" section of the Company's website at: <https://www.mhp.com.ua/en/responsibility/sustainable-development>.

The Company expects the 2018 Report to be available in June 2019.

Summary Corporate Responsibility information is also included on pages 71 to 74 within this Annual Report.

**BRANCHES**

MHP does not have any branches.

**GOING CONCERN**

After reviewing the 2019 budget and longer-term plans, the Directors are satisfied that, at the time of the approval of the financial statements, it was appropriate to adopt the going concern basis in preparing the financial statements of the Group.

**POLITICAL DONATIONS**

The Group did not make any political donations or incur any political expenditure during the year.

**COMMUNICATION WITH SHAREHOLDERS**

The Directors highlight the importance of effective and clear communication with shareholders. During 2018 shareholders had a number of meetings and discussions with Board members, predominantly with Mr Yuriy Kosyuk, Dr John Rich, and Ms Viktoria Kapelyushnaya, including meetings during roadshows, at conferences and regular conference calls.

In order to facilitate communication with Independent Directors, the Board has introduced a direct communication channel between shareholders and independent Directors and provides direct contact details through the Investor Relations Director. Details can be found at <http://www.mhp.com.ua/en/investor-relations/ir-contacts>.

**EVENTS AFTER THE BALANCE SHEET DATE**

On 15 February 2019, MHP received clearance from the Slovenian Competition Protection Agency for its acquisition of Perutnina Ptuj, a well-established international food-processing company and the most important and largest producer of poul-

try meat and poultry meat products in Southeast Europe. The acquisition had already received clearance from regulators in Austria, North Macedonia, Serbia and Romania.

On 21 February 2019, MHP completed its acquisition of Perutnina Ptuj.

**DISCLOSURE OF INFORMATION TO AUDITORS**

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

The independent auditors, Deloitte Limited, have expressed their willingness to continue in office and a resolution authorising the Board of Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

**ADDITIONAL DISCLOSURES**

Other information that is relevant to the Management Report, and which is incorporated by reference into this Report, can be located as follows:

	Pages
Corporate Governance Overview	76 to 80

The Company has chosen, in accordance with Section 414 C(11) of the UK Companies Act 2006, and as noted in this Management Report, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in this Management Report. The Strategic Report can be found on pages 3 to 24.

**APPROVAL**

Approved by the Board and signed on its behalf by:  
Dr John Rich  
Chairman of the Board of Directors of MHP SE

# STAKEHOLDER ENGAGEMENT

We understand how important it is for the Company's stakeholders (shareholders, bondholders, IFIs, rating agencies, financial media etc) to be able to access information about its development, results and strategy. We work to ensure that stakeholder communications are conducted regularly and effectively. The

financial calendar is published on MHP's website and is kept up to date. Key personnel who interface with stakeholders include our Non-Executive Directors, Senior Executives and our Director of Investor Relations. Further details are shown below.

#### NON-EXECUTIVE DIRECTORS:

**Dr John Rich**, Chairman of the Board

**Mr John Grant**, Senior Independent Director

#### EXECUTIVE DIRECTORS:

**Mr Yuriy Kosyuk**, CEO

**Ms Victoria Kapelyushna**, CFO

**Ms Anastasiya Sobotyuk**, Director of Investor Relations

During 2018 MHP participated in six conferences organised by investment banks from the US, the UK and Ukraine and had over 140 meetings with investment funds. MHP conducted a roadshow with CEO and CFO participation.

In order to update MHP's shareholders regularly on operational and financial results, MHP issues press releases and hosts regular investor calls with top management. In 2018 MHP issued eight press releases dedicated to quarterly, semi-annual and annual updates, and held four conference calls.

In 2018 the Company had one AGM. and two EGMs. The major resolutions agreed at the meetings related to the adoption of the Company's new corporate governance code, new share dealing code, re-appointment of auditors, appointment of a new director, and re-appointment of Board directors.



**MEETINGS WITH  
INVESTMENT FUNDS**



# FINANCIAL STATEMENTS

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# STATEMENT OF THE BOARD OF DIRECTORS'

## RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view of the financial position of MHP SE (the "Company") and its subsidiaries (the "Group") as of 31 December 2018 and of the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

### 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 as of and for the year ended 31 December 2018 were authorized for issue by the Board of Directors on 19 March 2019.

### Board of Directors' responsibility statement

In accordance with Article 9 sections (3c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190 (I) / 2007 until 2013, we, the members of the Board of Directors responsible for the drafting of the consolidated financial statements of MHP SE for the year ended 31 December 2018, on the basis of our knowledge, declare that:

- the consolidated financial statements which are presented on pages 109 to 167:
  - have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the provisions of article 9 section (4) of the law, and
  - provide a true and fair view of the assets and liabilities, the financial position and the profit or loss of the Company's and subsidiary companies, consolidated financial statements as a whole and
- the Management report provides a fair review of the developments and the performance of the business and the financial position of the Group included in the consolidated accounts taken as a whole, together with a description of the main risks and uncertainties which they face.

On behalf of the Board:

Director  
Director  
Director  
Director  
Director  
Director  
Director  
Director

Yuriy Kosyuk  
John Grant  
Viktoria Kapelyushnaya  
John Clifford Rich  
Yuriy Melnyk  
Christakis Taoushianis  
Roberto Banfi  
Roger Wills

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF MHP SE****REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS****Opinion**

We have audited the consolidated financial statements of MHP SE (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 109 to 167 of the consolidated financial statements and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MHP SE

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Valuation of biological assets</b></p> <p>The Group's policy is to measure biological assets at fair value in accordance with IAS-41 Agriculture ("IAS 41").</p> <p>As of 31 December 2018, the carrying amount of biological assets was USD 202,682 thousand, of which USD 179,290 thousand was classified within current assets and USD 23,392 thousand within non-current assets. Current biological assets mainly comprise breeders held for hatchery egg production, crops in fields and broilers. Non-current biological assets mainly comprise milk cows.</p> <p>For determining the fair value of biological assets, the Group uses the discounted cash flow technique as well as market prices of livestock of similar age, breed and genetic merit.</p> <p>This valuation is significant to our audit because the assessment process is complex and judgmental. It is based on assumptions that are affected by expected market or economic conditions, which can vary over time. The key assumptions used in the preparation of the discounted cash flow technique (see notes 4 and 15 to the consolidated financial statements) are:</p> <ul style="list-style-type: none"> <li>• average meat output for broilers and livestock for meat production;</li> <li>• average productive life of breeders and cattle held for regeneration and milk production;</li> <li>• expected crops output;</li> <li>• estimated changes in future sales prices;</li> <li>• projected production costs and costs to sell; and,</li> <li>• discount rate.</li> </ul>	<p>We have performed the following audit procedures in order to address the risks of material misstatement associated with this key audit matter:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the controls surrounding the valuation process for biological assets.</li> <li>• We assessed the competence, capabilities, experience and objectivity of the preparers of valuation, and verified their qualifications.</li> <li>• We confirmed that the valuation methods used are in accordance with IAS 41 and consistent with international valuation standards and industry norms.</li> <li>• We challenged management's assumptions with reference to historical data (yields) and, where applicable, external benchmarks (yields, prices) and market data noting the assumptions used fell within an acceptable range.</li> <li>• We evaluated the reasonableness and appropriateness of the discount rate with the assistance of our internal valuation specialists.</li> <li>• We performed a sensitivity analysis on the significant assumptions to evaluate the extent of impact on the fair values and assessed the appropriateness of the Group's disclosures relating to these sensitivities (note 15 to the consolidated financial statements).</li> <li>• We considered the appropriateness of all related disclosures provided in the consolidated financial statements (note 15 to the consolidated financial statements).</li> </ul> <p>No significant issues were noted as a result of our testing.</p>



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MHP SE

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Key Audit Matter

##### Impairment losses on financial instruments

As described in note 3 to the consolidated financial statements, the Group has adopted IFRS 9 "Financial Instruments" for the first time for the year beginning 1 January 2018.

We consider the adoption of the new standard to be a key audit matter in relation to the calculation of Expected Credit Losses (ECL) of financial assets. IFRS 9 is a new and complex accounting standard which requires considerable judgment and interpretation in its implementation, in particular around the calculation of ECL.

Key areas of judgment included:

- The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's ECL model.
- Assumptions used in the ECL model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors.

As at 31 December 2018 the Group holds:

- US\$ 15,980 thousand (2017: US\$10,825 thousand) in loan receivables, and
- US\$ 69,305 thousand (2017: US\$ 62,305 thousand) trade receivables.

Note 3 "Significant accounting policies" to the consolidated financial statements provides information on the adoption of IFRS 9 "Financial Instruments" ("IFRS9") by the Company from 1 January 2018, including the impact of the adoption.

#### How our audit addressed the Key Audit Matter

We have performed the following audit procedures in order to address the risks of material misstatement associated with this key audit matter with the assistance of our internal experts:

- We evaluated whether the management's modelling approach and the accounting policies are appropriate and incorporate the requirements of IFRS 9 and guidance issued by relevant bodies.
- We evaluated the completeness, accuracy and appropriateness of input data included in the calculations.
- We have reviewed and challenged the probability-weighted macroeconomic scenarios, staging criteria and loss given default estimates to identify whether indicators of possible management bias exist and ensured that they fell within an acceptable range.
- For provisional matrix, we tested segmentation of portfolio and historical information.
- We have assessed the mathematical accuracy of the models and verified inputs used.
- We performed a sensitivity analysis on the significant assumptions to evaluate the extent of impact on the ECL.
- We considered the appropriateness of all related disclosures provided in the financial statements (notes 14 and 19 to the consolidated financial statements).

No significant issues were noted as a result of our testing.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MHP SE

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report as presented in pages 100 to 121, which was obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatements therein, we are required to communicate the matter to those charged with governance.

#### Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MHP SE

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our au-

ditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MHP SE

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

#### *Appointment of the Auditor and Period of Engagement*

We were first appointed as auditors of the Group on 24 October 2017 by a shareholders' resolution. This is our second period of engagement appointment.

#### *Consistency of the Additional Report to the Audit Committee*

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 19 March 2019 in accordance with Article 11 of the EU Regulation 537/2014.

#### *Provision of Non-audit Services*

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

#### *Other Legal Requirements*

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

#### Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Costas Georghadjis.

Costas Georghadjis  
Certified Public Accountant and Registered Auditor  
for and on behalf of  
Deloitte Limited  
Certified Public Accountants and Registered Auditors

Limassol, 19 March 2019

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)*

<b>Continuing operations</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
Revenue	6	1,555,977	1,287,752
Net change in fair value of biological assets and agricultural produce	5	32,094	21,001
Cost of sales	7	(1,167,668)	(912,844)
<b>Gross profit</b>		<b>420,403</b>	<b>395,909</b>
Selling, general and administrative expenses	8	(99,674)	(79,239)
Government grants income	9	1,200	52,605
Other operating expenses, net		(7,003)	(3,912)
Impairment of property, plant and equipment	12	(3,803)	(3,607)
<b>Operating profit</b>		<b>311,123</b>	<b>361,756</b>
Finance income		4,457	3,472
Finance costs	10	(138,019)	(108,399)
Foreign exchange gain/(loss), net	32	11,638	(35,615)
Other expenses, net		(10,568)	(8,077)
<b>Profit before tax</b>		<b>178,631</b>	<b>213,137</b>
Income tax (expense)/benefit	11	(50,527)	17,118
<b>Profit for the year from continuing operations</b>		<b>128,104</b>	<b>230,255</b>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	2	-	(25,864)
<b>Profit for the year</b>		<b>128,104</b>	<b>204,391</b>

*The accompanying notes on the pages 115 to 167 form an integral part of these consolidated financial statements*

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)*

<b>Other comprehensive income</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Items that will not be reclassified to profit or loss:</b>			
Effect of revaluation of property, plant and equipment	12	-	209,737
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income	11	49,357	(30,979)
<b>Items that may be reclassified to profit or loss:</b>			
Cumulative translation difference		14,054	(25,008)
Other comprehensive income		63,411	153,750
Total comprehensive income for the year		191,515	358,141
<b>Profit attributable to:</b>			
Equity holders of the Parent		124,926	202,860
Non-controlling interests	23	3,178	1,531
		<b>128,104</b>	<b>204,391</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Parent		186,828	354,400
Non-controlling interests		4,687	3,741
		<b>191,515</b>	<b>358,141</b>
<b>Earnings per share from continuing and discontinued operations</b>			
Basic and diluted earnings per share (USD per share)		1.17	1.90
<b>Earnings per share from continuing operations</b>			
Basic and diluted earnings per share (USD per share)	34	1.17	2.14

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

*The accompanying notes on the pages 115 to 167 form an integral part of these consolidated financial statements*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS OF 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)*

<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,498,530	1,383,102
Land lease rights	13	48,809	45,410
Deferred tax assets	11	-	121
Non-current biological assets	15	23,392	20,405
Long-term bank deposits	24	3,387	2,524
Other non-current assets, net	14	59,869	24,817
		<b>1,633,987</b>	<b>1,476,379</b>
<b>Current assets</b>			
Inventories	16	273,522	226,368
Biological assets	15	179,290	141,028
Agricultural produce	17	224,789	183,407
Other current assets	20	32,858	25,327
Taxes recoverable and prepaid	18	45,146	37,767
Trade accounts receivable, net	19	69,305	62,305
Cash and cash equivalents	21	211,768	125,554
		<b>1,036,678</b>	<b>801,756</b>
<b>TOTAL ASSETS</b>		<b>2,670,665</b>	<b>2,278,135</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	22	284,505	284,505
Treasury shares		(44,593)	(48,503)
Additional paid-in capital		174,022	175,291
Revaluation reserve	12	642,800	661,454
Retained earnings		1,040,327	925,978
Translation reserve		(1,015,591)	(1,030,159)
<b>Equity attributable to equity holders of the Parent</b>		<b>1,081,470</b>	<b>968,566</b>

	<b>Notes</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Non-controlling interests	23	16,536	17,141
<b>Total equity</b>		<b>1,098,006</b>	<b>985,707</b>
<b>Non-current liabilities</b>			
Bank borrowings	24	105,783	138,817
Bonds issued	25	1,090,935	970,088
Finance lease obligations	26	9,087	7,410
Deferred revenues	9	34,578	-
Deferred tax liabilities	11	12,953	23,730
		<b>1,253,336</b>	<b>1,140,045</b>
<b>Current liabilities</b>			
Trade accounts payable		66,398	43,175
Other current liabilities	27	96,383	50,296
Bank borrowings	24	132,715	36,917
Accrued interest	24, 25	19,472	17,955
Finance lease obligations	26	4,355	4,040
		<b>319,323</b>	<b>152,383</b>
<b>TOTAL LIABILITIES</b>		<b>1,572,659</b>	<b>1,292,428</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,670,665</b>	<b>2,278,135</b>

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

*The accompanying notes on the pages 115 to 167 form an integral part of these consolidated financial statements*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)*

Balance at 31 December 2016	284,505	(48,503)	175,291	570,649	719,340	(1,024,916)	676,366	16,698	693,064
Profit for the year	-	-	-	-	202,860	-	202,860	1,531	204,391
Other comprehensive income/(loss)	-	-	-	174,583	-	(23,043)	151,540	2,210	153,750
Total comprehensive income/(loss) for the year	-	-	-	174,583	202,860	(23,043)	354,400	3,741	358,141
Transfer from revaluation reserve to retained earnings	-	-	-	(44,838)	44,838	-	-	-	-
Dividends declared by the Parent	-	-	-	-	(80,000)	-	(80,000)	-	(80,000)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(810)	(810)
Derecognition of interests in subsidiaries (Note 2)	-	-	-	(24,841)	24,841	17,800	17,800	(2,488)	15,312
Translation differences on revaluation reserve	-	-	-	(14,099)	14,099	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>284,505</b>	<b>(48,503)</b>	<b>175,291</b>	<b>661,454</b>	<b>925,978</b>	<b>(1,030,159)</b>	<b>968,566</b>	<b>17,141</b>	<b>985,707</b>
Effect of adoption IFRS 9 (Note 3)	-	-	-	-	2,904	-	2,904	-	2,904
<b>Balance at 1 January 2018</b>	<b>284,505</b>	<b>(48,503)</b>	<b>175,291</b>	<b>661,454</b>	<b>928,882</b>	<b>(1,030,159)</b>	<b>971,470</b>	<b>17,141</b>	<b>988,611</b>
Profit for the year	-	-	-	-	124,926	-	124,926	3,178	128,104
Other comprehensive income	-	-	-	49,357	-	12,545	61,902	1,509	63,411
Total comprehensive income for the year	-	-	-	49,357	124,926	12,545	186,828	4,687	191,515
Transfer from revaluation reserve to retained earnings	-	-	-	(73,587)	73,587	-	-	-	-
Dividends declared by the Parent (Note 30)	-	-	-	-	(80,000)	-	(80,000)	-	(80,000)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(9,369)	(9,369)
Non-controlling interests acquired (Note 2)	-	3,910	(1,269)	-	997	-	3,638	(3,638)	-
Derecognition of interests in subsidiaries (Note 2)	-	-	-	(1,950)	(539)	2,023	(466)	7,715	7,249
Translation differences on revaluation reserve	-	-	-	7,526	(7,526)	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>284,505</b>	<b>(44,593)</b>	<b>174,022</b>	<b>642,800</b>	<b>1,040,327</b>	<b>(1,015,591)</b>	<b>1,081,470</b>	<b>16,536</b>	<b>1,098,006</b>

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

*The accompanying notes on the pages 115 to 167 form an integral part of these consolidated financial statements*



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS OF 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)*

<b>Operating activities</b>			
Profit before tax		178,631	187,273
<b>Non-cash adjustments to reconcile profit before tax to net cash flows</b>			
Depreciation and amortization expense	5	134,953	93,225
Net change in fair value of biological assets and agricultural produce	5	(32,094)	(21,001)
Loss on disposal of subsidiaries		-	25,864
Change in allowance for irrecoverable amounts and direct write-offs		3,333	3,305
Loss on impairment of property, plant and equipment	12	3,803	3,607
Loss on disposal of property, plant and equipment and other non-current assets		1,953	182
Finance income		(4,457)	(3,472)
Finance costs	10	138,019	108,399
Withholding tax related to interest and payment of dividends		-	619
Non-operating foreign exchange (gain)/loss, net		(11,638)	35,615
<b>Operating cash flows before movements in working capital</b>		<b>412,503</b>	<b>433,616</b>
<b>Working capital adjustments</b>			
Change in inventories		(21,032)	(44,892)
Change in biological assets		(29,338)	(4,507)
Change in agricultural produce		(12,964)	(29,787)
Change in other current assets		(6,663)	(987)
Change in taxes recoverable and prepaid		(6,327)	(7,188)
Change in trade accounts receivable, net		(16,003)	(15,557)
Change in other current liabilities		39,607	(15,495)
Change in trade accounts payable		7,696	(1,163)
<b>Cash generated by operations</b>		<b>367,479</b>	<b>314,040</b>
Interest received		4,288	3,395

	<b>Notes</b>	<b>2018</b>	<b>2017 (Restated Note 25)</b>
Interest paid		(97,464)	(102,832)
Withholding tax related to interest paid		-	(603)
Income taxes paid		(13,398)	(423)
<b>Net cash flows from operating activities</b>		<b>260,905</b>	<b>213,577</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(210,038)	(101,710)
Investments in other non-current assets		(42,032)	(12,249)
Purchase of land lease rights		(9,404)	(7,970)
Government grants received	9	35,371	-
Net cash inflow on disposal of subsidiaries	2	7,249	75,558
Proceeds from disposals of property, plant and equipment		2,138	99
Purchases of non-current biological assets		(2,747)	(2,321)
Withdrawals of short-term and long-term deposits		4,452	4,006
Investments in short-term deposits		(5,673)	(1,791)
Loans provided to employees, net		(483)	(151)
Loans (provided to)/repaid by related parties, net		(2,706)	19
<b>Net cash flows used in investing activities</b>		<b>(223,873)</b>	<b>(46,510)</b>

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

*The accompanying notes on the pages 115 to 167 form an integral part of these consolidated financial statements*

**CONSOLIDATED STATEMENT OF CASH FLOWS** (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

Other comprehensive income	Notes	2018	2017 (Restated Note 25)
<b>Financing activities</b>			
Proceeds from bank borrowings		255,024	70,711
Repayment of bank borrowings		(201,531)	(403,613)
Proceeds from bonds issued	25	550,000	500,000
Repayment of bonds		(416,183)	(254,400)
Transaction costs related to corporate bonds issued		(44,468)	(15,145)
Transaction costs related to bank loans received		(384)	(1,993)
Repayment of finance lease obligations		(4,416)	(9,217)
Dividends paid to shareholders	30	(80,000)	(80,000)
Dividends paid by subsidiaries to non-controlling shareholders		(9,369)	(810)
Consent payment related to corporate bonds	25	(992)	-
<b>Net cash flows from/(used in) financing activities</b>		<b>47,681</b>	<b>(194,467)</b>
Net increase/(decrease) in cash and cash equivalents		84,713	(27,400)
Cash and cash equivalents attributable to disposal group classified as held for sale at 1 January		-	2,098
Net foreign exchange difference		1,501	(126)
Cash and cash equivalents at 1 January		125,554	150,982
<b>Cash and cash equivalents at 31 December</b>	<b>21</b>	<b>211,768</b>	<b>125,554</b>
<b>Non-cash transactions</b>			
Effect of revaluation of property, plant and equipment	12	-	206,130
Additions of property, plant and equipment under finance leases		5,647	5,518
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor		11,377	7,135
Property, plant and equipment purchased for credit		6,287	6,698

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

The accompanying notes on the pages 115 to 167 form an integral part of these consolidated financial statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 1. CORPORATE INFORMATION

MHP SE (the “Parent” or “MHP SE”), a limited liability company (Societas Europaea) registered under the laws of Cyprus, was formed on 30 May 2006. MHP SE serves as the ultimate holding company of PJSC “Myronivsky Hliboproduct” (“MHP”) and its subsidiaries. Hereinafter, MHP SE and its subsidiaries are referred to as the “MHP SE Group” or the “Group”. The registered address of MHP SE is 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

The controlling shareholder of MHP SE is Mr. Yuriy Kosyuk (“Principal Shareholder”), who owns 100% of the shares of WTI Trading Limited (“WTI”), which is the immediate majority shareholder of MHP SE, which in turn directly owns of 59,7% of the total outstanding share capital of MHP SE.

The principal business activities of the Group are poultry and related operations, grain growing, as well as other agricultural operations (meat processing 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, vegetable oil, mixed fodder. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, convenience food products, milk, goose meat, foie gras and feed grains. During the year ended 31 December 2018 the Group employed 28,575 people (2017: 27,589 people).

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent’s effective ownership interest as of 31 December 2018 and 2017 were as follows:

Name	Country of registration	Year established acquired	Principal activities	31 December 2018	31 December 2017
Raftan Holding Limited	Cyprus	2006	Sub-holding Company	99.9%	99.9%
Larontas Limited	Cyprus	2015	Sub-holding Company	100.0%	100.0%
MHP Lux S.A.	Luxembourg	2018	Finance Company	100.0%	0.00%
Myronivsky Hliboproduct	Ukraine	1998	Management, marketing and sales	99.9%	99.9%
Myronivsky Plant of Manufacturing Feeds and Groats oil production	Ukraine	1998	Fodder and vegetable	88.5%	88.5%
Vinnytska Ptakhofabryka	Ukraine	2011	Chicken farm	99.9%	99.9%
Peremoga Nova	Ukraine	1999	Breeder farm	99.9%	99.9%
Oril-Leader	Ukraine	2003	Chicken farm	99.9%	99.9%
Myronivska Pticefabrika	Ukraine	2004	Chicken farm	99.9%	99.9%
Starynska Ptakhofabryka	Ukraine	2003	Breeder farm	100.0%	100.0%
Ptakhofabryka Snyatynska Nova	Ukraine	2005	Geese breeder farm	99.9%	99.9%
Zernoproduct MHP	Ukraine	2005	Grain cultivation	99.9%	99.9%
Katerinopilskiy Elevator	Ukraine	2005	Fodder production and grain storage, vegetable oil production	99.9%	99.9%
SPF Urozhay	Ukraine	2006	Grain cultivation	99.9%	99.9%
Agrofort	Ukraine	2006	Grain cultivation	99.9%	86.1%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	99.9%	99.9%
Ukrainian Bacon	Ukraine	2008	Meat processing	79.9%	79.9%
AgroKryazh	Ukraine	2013	Grain cultivation	51.0%	99.9%
Agro-S	Ukraine	2013	Grain cultivation	51.0%	51.0%
Zakhid-Agro MHP	Ukraine	2015	Grain cultivation	100.0%	100.0%
Scylla Capital Limited	British Virgin Islands	2014	Trading in sunflower oil and poultry meat	100.0%	100.0%

The Group’s primary operational facilities are located in different regions of Ukraine, including Kyiv, Cherkasy, Dnipropetrovsk, Donetsk, Lviv, Ternopil, Ivano-Frankivsk, Vinnytsia, Sumy and Khmelnytsk regions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 2. CHANGES IN THE GROUP STRUCTURE

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

In December 2018 the Group decreased its effective ownership interest in AgroKryazh to 51% through the selling of 49% ownership interest for cash consideration of USD 7,249 thousand. The difference between carrying value of the net assets disposed and consideration received was recognised as an adjustment to retained earnings.

In December 2018 the Group increased its effective ownership interest in Agrofort to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 256,414 treasury shares held by the Group. The difference between the fair value of the shares transferred and their carrying value in the amount of USD 1,269 thousand was recognised as an adjustment to additional paid-in capital. The difference between the fair value of the shares transferred and the carrying value of non-controlling interest was recognised as an adjustment to retained earnings in the amount of USD 997 thousand.

#### Disposal of subsidiaries

##### Crimean companies

On 17 February 2017 the Group sold its 100% ownership interest in the Group's companies located in Autonomous Republic of Crimea for cash consideration of USD 77,785 thousand. The consideration consisted only of cash, there were no material direct costs related to disposal.

Assets and liabilities of Crimean companies as of the date of disposal were as follows:

	<b>17 February 2017</b>
Property, plant and equipment, net	52,530
Other non-current assets	1,451
Biological assets	9,938
Agricultural produce	9,242
Inventories	11,795
Trade accounts receivable, net	1,917
Taxes recoverable and prepaid	2,913
Other current assets	1,805
Cash and cash equivalents	2,227
<b>Total assets</b>	<b>93,818</b>
Trade accounts payable	(3,685)
Other current liabilities	(1,796)
<b>Total liabilities</b>	<b>(5,481)</b>
<b>Net assets disposed</b>	<b>88,337</b>

The following table presents the net result of the transaction:

Consideration received	77,785
Net assets disposed	(88,337)
Non-controlling interest	2,488
Cumulative exchange loss in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control in subsidiaries <sup>*</sup>	(17,800)
<b>Loss on disposal</b>	<b>(25,864)</b>

Consideration received in cash and cash equivalents	77,785
Less: cash and cash equivalents balances disposed	(2,227)
<b>Net cash inflow arising on the disposal</b>	<b>75,558</b>

The loss on disposal is included in the loss for the year from discontinued operations.

<sup>\*</sup> Upon disposal of subsidiaries, the total cumulative exchange differences attributable to devaluation of functional currency, which were previously a component of other comprehensive income, were reclassified to profit or loss. Previously recognised gain of revaluation surplus remaining in the revaluation reserve of property, plant and equipment were not reclassified to profit or loss, but transferred directly to retained earnings in the amount of USD 24,841 thousand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

### 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 (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law Cap 113. The operating subsidiaries of the Group maintain their accounting records under local accounting standards.

Local principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' local accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

#### Basis of preparation

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

The consolidated financial statements of the Group are prepared on the basis of historical cost except for revalued amounts of buildings and structures, grain storage facilities, production machinery, vehicles and agricultural machinery, biological assets, agricultural produce, and certain financial instruments, which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

#### Adoption of new and revised International Financial Reporting Standards

##### IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The adjustments arising from the new requirements associated with the recognition and measurement of financial instruments are therefore not reflected in the restated balance sheet as of 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The key requirements of IFRS 9 are:

- *Classification and measurement of financial assets.* All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI").

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- *Classification and measurement of financial liabilities.* With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

- *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- *Hedge accounting.* The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Summarized impact from the adoption of IFRS 9 is as follows:

- Presentational changes in other non-current assets, net (Note 14), trade accounts receivable, net (Note 19), other current assets (Note 20), other current liabilities (Note 27), risk management policies (Note 32) note disclosures to reflect the business model and cash flow characteristics of these assets and liabilities and Group them into their respective IFRS 9 category or other IFRS classification;
- An additional expected credit loss allowance in the amount of USD 7,922 thousand as of 1 January 2018 (Note 14 and Note 19) and decrease of carrying amount of Bonds issued in the amount of USD 10,826 thousand as of 1 January 2018 (Note 25), recognised against opening retained earnings.

Total effect of IFRS 9 implementation on retained earnings as of 1 January 2018 amounts to USD 2,904 thousand (increase).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

	Notes	Original measurement category under IAS 39	New measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018	Retained earnings effect on 1 January 2018
<b>Financial assets</b>								
Other non-current assets, net	14	Loan and receivable	Amortised cost	18,889	-	(1,532)	17,357	(1,532)
Trade accounts receivable, net	19	Loan and receivable	Amortised cost	62,305	-	(6,390)	55,915	(6,390)
Other current assets*	20	Loan and receivable	Amortised cost	4,404	-	-	4,404	-
Cash and cash equivalents*	21	Loan and receivable	Amortised cost	125,554	-	-	125,554	-
<b>Financial liabilities</b>								
Bank borrowings	24	Amortised cost	Amortised cost	175,734	-	-	175,734	-
Bonds issued	25	Amortised cost	Amortised cost	970,088	-	(10,826)	959,262	10,826
Trade accounts payable		Amortised cost	Amortised cost	43,175	-	-	43,175	-
Other current liabilities	27	Amortised cost	Amortised cost	40,575	-	-	40,575	-

\* Management assessed that impact from the adoption of IFRS 9 as of 01 January 2018 and 31 December 2018 was not material

#### IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which

the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when control of the goods

or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. The Group has applied IFRS 15 in accordance with the retrospective method, with recognition the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings. The Group's accounting policies for its revenue streams are disclosed in detail in Note 3 below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

Apart from providing more extensive disclosures for the Group's revenue transactions (Note 6), the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. Certain comparative information for the year ended 31 December 2017 presented in Note 6 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2018. Such reclassifications and revisions were not significant to the Group consolidated financial statements.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018:

- IFRS 2 (amendments) Classification and Measurement of Share based Payment Transactions
- IAS 40 (amendments) Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle: amendments to IAS 28 Investments in Associates and Joint Ventures
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Adoption of these standards and interpretation had no any material impact on the disclosures or on the amounts reported in these financial statements.

#### Standards and Interpretations in issue but not effective

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

Standards and Interpretations	Effective for annual period beginning on or after
IFRS 16 Leases*	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 9: Prepayment Features with Negative Compensation*	1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IFRSs – Annual Improvements to IFRSs 2015 –2017 Cycle	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely
IFRIC 23 Uncertainty over Income Tax Treatments*	1 January 2019

\* Standards have been already endorsed for use in the European Union

#### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Standards and Interpretations in issue but not effective (continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Group intends to apply IFRS 16 Leases using the modified retrospective approach with the cumulative effect of initially applying IFRS 16 recognised in retained earnings at the date of initial application on 1 January 2018, as permitted under the specific transition provisions in the standard. The analysis conducted by the Group indicated the probable recognition of right-of-use asset and lease liability in the consolidated balance sheet in the amount not higher than USD 103,933 thousand upon application of IFRS 16. In terms of the future effects on the consolidated statement of profit or loss and other comprehensive income, in contrast to the presentation operating lease expense to date, the Group will be recognizing depreciation charges on right to use-of-asset and the interest expense from unwinding the lease the discount on the lease liability. Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities and to increase net cash used in financing activities by the same amount.

The above assessment for IFRS 16 is preliminary because not all transition work has been finalized. The actual effect of adopting IFRS 16 may change because their adoption will require the Group to revise its accounting processes and internal controls and these changes are not yet completed. The new accounting policies, assumptions, judgements and estimation techniques are subject to changes until the Group finalizes its first consolidated financial statements that include the date of initial application.

For other Standards and Interpretations management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

##### Functional and presentation currency

The functional currency of Ukrainian companies of the Group is the Ukrainian Hryvnia ("UAH"); the functional currency of the Cyprus companies of the Group is US Dollars ("USD"). 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 at 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 recognized 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 recognised as a separate component of equity;
- All equity items, except for the revaluation reserve, are translated at the historical exchange rate. The revaluation reserve is translated at the closing rate as of the date of the statement of financial position.

For practical reasons, the Group translates items of income and expenses for each period presented in the financial statements using the quarterly average exchange rates, 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 2018	Average for 2018	Closing rate as of 31 December 2017	Average for 2017
UAH/USD	27.6883	27.2016	28.0672	26.5947
UAH/EUR	31.7141	32.1341	33.4954	30.0128

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the MHP SE and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

#### Accounting for acquisitions

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

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

When the consideration transferred by the Group in a business combination includes assets and liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as mea-

surement 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 a transaction-by-transaction basis. Other types of non-controlling interests, if any, are measured at fair value or, when applicable, on the basis specified in other IFRS standards.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Accounting for acquisitions (continued)

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

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

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

##### Fair value measurement

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(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 recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

#### Contingent liabilities and assets

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

#### Segment information

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

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

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

Reportable segments represent the Group's principal business activities. Poultry and related operations segment include sales of chicken meat, sales of by-products such as vegetable oil and related products and other poultry-related products. CODM is considering oil extraction as a part of mixed fodder production rather than a separate line of business as primarily quality and effectiveness of mixed fodder production prevails over oil output. Grain growing operations include sale of grain other than feed grains and green-fodder. Other agricultural operations segment primarily includes sales of other than poultry meat and meat processing products, feed grains and milk.

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

#### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Revenue recognition

The Group generates revenue primarily from the sale of agricultural products to the end customers. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Non-monetary exchanges or swaps of goods which are of similar nature and value are not treated as transactions which generate revenue.

The Group recognises revenue from the following major sources:

- chicken meat
- vegetable oil and related products
- other poultry related sales (delivery services, sunflower and soybean meals, sunflower husk and other)
- grain
- meat processing products and other meat
- other agricultural operations (milk, feed grains and other)

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer.

The major part of the Group's sales are generated from the wholesale market. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location or delivered to major Ukrainian sea ports. Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on-selling the goods, and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional. Under the Group's standard contract terms, customers have no right of return.

The Group sells its products for export on various terms, some of which include shipping and handling costs in the price of the product. Sales price of products for local market predominantly includes shipping and handling costs in the price of the product. Such services are recognised as a separate performance obligation. The transaction price for shipping and handling services is determined based on the costs of such services. The Group satisfies its performance obligation associated with transferring the promised goods or services to a customer when the customer obtains control of that assets.

##### VAT refunds and other government grants

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Property, plant and equipment

All groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses, except land and other fixed assets that are carried at historical cost less accumulated depreciation.

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 all groups of property, plant and equipment carried at revaluation the model revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve. However, such increase is recognised in the statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the statement of comprehensive income.

However, such decrease is debited directly to the revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Depreciation on revalued assets is charged to the statement of comprehensive income. The excess of depreciation charge on the revalued asset over the depreciation that would have been charged based on the historical cost of the asset is transferred from revaluation reserve directly to retained earnings over the assets useful life. 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.

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	15–55 years
Grain storage facilities	20–60 years
Production machinery	10–25 years
Auxiliary and other machinery	5–25 years
Utilities and infrastructure	20–50 years
Vehicles and agricultural machinery	5–15 years
Other fixed assets	3–10 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.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Property, plant and equipment (continued)

The gain or loss arising on 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 recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, land lease rights acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as land lease rights acquired separately.

Amortization of intangible assets is recognised 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 lives are reviewed at least at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

##### Impairment of tangible and intangible assets other than goodwill

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the statement of comprehensive income. An impairment loss recognised on goodwill is not reversed in subsequent periods.

#### Income taxes

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

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

#### Withholding tax

Passive income (dividends, interest, royalties, etc) from Ukrainian sources that is paid to non-resident entities is generally subject to withholding tax (WHT).

The WHT tax rates 15% (base rates) should be applied unless more favorable rates (reduced rates) are provided by a relevant double taxation treaty (DTT) signed between Ukraine and foreign country.

In order to benefit from reduced tax rate in DTT, the non-resident recipient of income must confirm its tax residency and should also be considered the beneficial owner of such income.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Withholding tax (continued)

Tax residency status should be confirmed by tax residency certificate issued by tax authorities of the recipient's country of residence for tax year in which the income is paid.

According to the Tax Code of Ukraine, agents, nominee holders, and other intermediaries in respect of received income cannot be beneficial owners of income sourced in Ukraine and are not entitled to favorable treaty provisions. The Ukrainian tax authorities use both legal and economic substance approach for the beneficial owner definition considering also economic substance of the transaction and the substance of the recipient of income.

As result, in order to prove the beneficial ownership status of the non-resident recipient, there should be additional documental support to justify the substance of transactions.

No formal requirements exist to the above documents and, in practice, such documents may include evidence that the recipient of income has a real office, employees and that the recipient is fully entitled to manage and dispose the received income without limitations.

##### 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 recognised in the consolidated statement of comprehensive income. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

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

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

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

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

##### Biological Assets

###### (i) Broiler chickens

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 42-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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

### 3. SUMMARY OF SIGNIFICANT

#### ACCOUNTING POLICIES (CONTINUED)

#### Biological assets and agricultural produce (continued)

##### (iii) Cattle and pigs

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

##### (iv) 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.

##### (v) Hatchery eggs

The fair value of hatchery eggs is determined by reference to market prices at the point of harvest.

#### 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

The fair value of fodder grain 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 chickens 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 recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, trade accounts receivable, net, bank borrowings, bonds issued, trade accounts payable and other financial liabilities. 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 recognised 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.

#### Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost (this category is the most relevant to the Group):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at FVTOCI:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial assets (continued)

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

##### Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or

loss. ECLs are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade accounts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

##### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group com-

pares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

##### Low credit risk financial instruments

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial assets (continued)

(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

#### Default definition

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### Credit impaired financial assets

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

#### Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Inputs, assumptions and estimation techniques used by measurement and recognition of expected credit losses are disclosed in respective Notes 14 and 19 to financial assets.

#### Financial liabilities

##### Initial recognition and measurement

The Group's financial liabilities include trade and other payables, loans and borrowings, finance leases and derivative financial instruments.

All financial liabilities are recognised initially at fair value and are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

#### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in thousands of US dollars, unless otherwise indicated)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Trade accounts receivable, net**

Trade accounts receivable, net are measured at initial recognition at transaction price, and are subsequently measured at amortised cost using the effective interest rate method. Trade accounts receivable, net which are non-interest bearing, are stated at their nominal value.

**Cash and cash equivalents**

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

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

Interest-bearing bank borrowings, bonds issued and other long-term payables are initially measured at fair value net of directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Any

difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognised over the term of the borrowings and recorded as finance costs.

**Derivative financial instruments**

The Group enters into derivative financial instruments to purchase sunflower seeds. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

**Trade and other accounts payable**

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

**Leases**

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

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

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

**Provisions**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

##### Critical 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 recognised in the consolidated financial statements.

##### Revaluation of property, plant and equipment

As described in Note 3, the Group applies the revaluation model to the measurement of all groups of property, plant and equipment, except land and other fixed assets. At each reporting date, the Group carries out a review of the carrying amount of items of property, plant and equipment accounted for using a revaluation model to determine whether the carrying amount differs materially from fair value.

When determining whether to perform a fair value assessment in a given period, the management of the Group considers development of macroeconomic indicators like changes in prices, inflation rates and devaluation of Ukrainian Hryvnia ("UAH") against USD and EUR. Based on the results of this review, the management of the Group concluded that the fair value of all groups property, plant and equipment not to be materially different from the reported book values as of 31 December 2018.

##### 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;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and,
- Discount rate.

During the year ended 31 December 2018 the fair value of biological assets was estimated using discount factors of 15.7% and 18.0% (31 December 2017: 12.7% and 18.1%) for non-current and current assets, respectively.

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

##### Useful lives of property, plant and equipment

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

##### Deferred tax assets

Deferred tax assets, including those arising from unused tax losses are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Based on management assessment the Group decided to recognize deferred tax assets on unused tax losses, which will be utilized in future against existing deferred tax liabilities and available future tax profits.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in thousands of US dollars, unless otherwise indicated)*

**5. SEGMENT INFORMATION**

The majority of the Group's operations and non-current assets are located within Ukraine.

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

*Poultry and related operations segment:*

- sales of chicken meat
- sales of vegetable oil and related products
- 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 (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 and loss on impairment of property, plant and equipment. 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.

The Group does not disclose geographical revenue information as it is not available and the cost to develop it would be excessive.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(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 from continuing operations was as follows:

<b>Year ended 31 December 2018</b>	<b>Poultry and related operations</b>	<b>Grain growing operations</b>	<b>Other agricultural operations</b>	<b>Total reportable segments</b>	<b>Eliminations</b>	<b>Consolidated</b>
External sales	1,241,181	180,976	133,820	1,555,977	-	1,555,977
Sales between business segments	50,181	244,151	324	294,656	(294,656)	-
<b>Total revenue</b>	<b>1,291,362</b>	<b>425,127</b>	<b>134,144</b>	<b>1,850,633</b>	<b>(294,656)</b>	<b>1,555,977</b>
<b>Segment result</b>	<b>229,293</b>	<b>106,401</b>	<b>7,996</b>	<b>343,690</b>	<b>-</b>	<b>343,690</b>
Unallocated corporate expenses						(28,764)
Loss on impairment of property, plant and equipment						(3,803)
Other expenses, net <sup>*</sup>						(132,492)
<b>Profit before tax from continuing operations</b>						<b>178,631</b>
<b>Other information:</b>						
Additions to property, plant and equipment <sup>**</sup>	189,677	30,747	12,496	232,920	-	232,920
Depreciation and amortization expense <sup>***</sup>	82,093	44,503	7,555	134,151	-	134,151
Net change in fair value of biological assets and agricultural produce	(934)	33,028	-	32,094	-	32,094

<sup>\*</sup> Include finance income, finance costs, foreign exchange loss, net and other expenses, net.<sup>\*\*</sup> Additions to property, plant and equipment in 2018 (Note 12) do not include unallocated additions in the amount of USD 5,948 thousand.<sup>\*\*\*</sup> Depreciation and amortization for the year ended 31 December 2018 does not include unallocated depreciation and amortization in the amount of USD 802 thousand.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)***5. SEGMENT INFORMATION (CONTINUED)**

<b>Year ended 31 December 2017</b>	<b>Poultry and related operations</b>	<b>Grain growing operations</b>	<b>Other agricultural operations</b>	<b>Total reportable segments</b>	<b>Eliminations</b>	<b>Consolidated</b>
External sales	1,050,724	117,077	119,951	1,287,752	-	1,287,752
Sales between business segments	37,168	191,993	194	229,355	(229,355)	-
<b>Total revenue</b>	<b>1,087,892</b>	<b>309,070</b>	<b>120,145</b>	<b>1,517,107</b>	<b>(229,355)</b>	<b>1,287,752</b>
<b>Segment result</b>	<b>306,528</b>	<b>65,643</b>	<b>15,496</b>	<b>387,667</b>	<b>-</b>	<b>387,667</b>
Unallocated corporate expenses						(22,304)
Loss on impairment of property, plant and equipment						(3,607)
Other expenses, net <sup>*</sup>						(148,619)
<b>Profit before tax from continuing operations</b>						<b>213,137</b>
<b>Other information:</b>						
Additions to property, plant and equipment <sup>**</sup>	93,136	21,069	3,493	117,698	-	117,698
Depreciation and amortization expense <sup>***</sup>	59,614	29,675	3,268	92,557	-	92,557
Net change in fair value of biological assets and agricultural produce	28,580	(11,863)	4,284	21,001	-	21,001

<sup>\*</sup> *Include finance income, finance costs, foreign exchange loss, net and other expenses, net.*<sup>\*\*</sup> *Additions to property, plant and equipment in 2017 (Note 12) do not include unallocated additions in the amount of USD 7,938 thousand.*<sup>\*\*\*</sup> *Depreciation and amortization for the year ended 31 December 2017 does not include unallocated depreciation and amortization in the amount of USD 668 thousand.*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)***5. SEGMENT INFORMATION (CONTINUED)**

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2018 and 2017:

	2018	2017
Chicken meat and related products	471,177	334,385
Vegetable oil and related products	274,313	259,054
Grain	156,511	108,815
Other agricultural segment products	21,703	30,012
	<b>923,704</b>	<b>732,266</b>

Export sales includes revenue from shipping and handling services in the amount of USD 33,325 thousand as of 31 December 2018 (2017: USD 24,412 thousand).

Export sales of vegetable oil and related products and export sales of grains are primarily made to global trading companies. The major markets for the Group's export sales of chicken meat are MENA and EU countries.

**6. REVENUE**

Revenue for the years ended 31 December 2018 and 2017 was as follows:

<b>Poultry and related operations segment</b>		
Chicken meat	870,851	718,032
Vegetable oil and related products	271,122	260,251
Shipping and handling services	43,586	33,104
Other poultry related sales	55,622	39,337
	<b>1,241,181</b>	<b>1,050,724</b>
<b>Grain growing operations segment</b>		
Grain	168,118	108,068
Shipping and handling services	12,858	9,009
	<b>180,976</b>	<b>117,077</b>
<b>Other agricultural operations segment</b>		
Other meat	97,190	83,599
Shipping and handling services	5,313	4,207
Other agricultural sales	31,317	32,145
	133,820	119,951
	1,555,977	1,287,752

**7. COST OF SALES**

Cost of sales for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Poultry and related operations	891,065	718,407
Grain growing operations	154,053	89,075
Other agricultural operations	122,550	105,362
	<b>1,167,668</b>	<b>912,844</b>

For the years ended 31 December 2018 and 2017 cost of sales comprised the following:

	2018	2017
Costs of raw materials and other inventory used	754,942	626,104
Payroll and related expenses	162,395	113,875
Depreciation and amortization expense	124,993	82,835
Other costs	125,338	90,030
	<b>1,167,668</b>	<b>912,844</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Payroll and related expenses	43,653	31,759
Services	21,957	17,620
Depreciation expense	9,960	10,390
Representative costs and business trips	9,830	8,920
Advertising expense	7,779	5,256
Fuel and other materials used	2,715	2,588
Insurance expense	492	61
Bank services and conversion fees	431	488
Other	2,857	2,157
	<b>99,674</b>	<b>79,239</b>

Remuneration to the auditors, included in Services above, amounted to USD 1,605 thousand for the year ended 31 December 2018 (2017: USD 980 thousand). Such remuneration includes both audit and non-audit services, with the statutory audit fees component amounted to USD 430 thousand (2017: USD 420 thousand) for the year ended 31 December 2018 and fees for other assurance services component approximating USD 458

thousand (2017: USD 294 thousand), for tax advisory services component approximating USD 20 thousand (2017: USD 130 thousand) and for other non-audit services component approximating USD 697 thousand (2017: USD 136 thousand) for the year ended 31 December 2018.

#### 9. GOVERNMENT GRANTS INCOME

On 30 December 2016, the President of Ukraine signed the Law No. 1791 “On Amendments to the Tax Code of Ukraine Regarding the Balancing of Budget Revenues in 2017” (the “Law No. 1791”). The Law No. 1791 introduced changes to VAT administration for agricultural companies which previously enjoyed a special VAT regime. In order to continue state support for agricultural companies, the Law No. 1791 introduced budget subsidies for agricultural companies. From 2017 onwards, budget subsidies will be provided for five consecutive years until 1 January 2022. The agricultural producers eligible for the subsidies, include those, involved in poultry production and animal farming, as well as fruit and vegetable farmers. For each agricultural producer, the amount of the direct subsidy is not to exceed the amount of VAT tax paid by the producers, and was distributed on a monthly basis. As of the date of the authorization of these consolidated financial statements, the Government has not allocated the specific amount for the state subsidies for qualifying agricultural companies in 2018. Therefore,

during the year ended 31 December 2018 the Group was not able to receive respective state subsidies from the budget and has not recognised any such subsidies in the consolidated financial statements accordingly. In 2017, USD 52,605 thousand amount of subsidies were recognised.

However, the Ukrainian Government continues to support domestic agri producers and attract investments into agricultural sector. According to the Law “On the State Budget for 2018”, UAH 6,311 million were allocated to support agricultural sector in 2018 via compensation program, including UAH 4,000 million to support livestock sector and up to UAH 1,000 million to purchase agricultural machinery produced in Ukraine. On 7 February 2018, the Cabinet of Ministers of Ukraine approved the procedure to obtain livestock sector state support. During the year ended 31 December 2018, the Group received government grants in accordance to the compensation program for construction and reconstruction of livestock farms in an amount of UAH 960,666 thousand (USD 34,371 thousand). Government grants are presented in the statement of the financial position as deferred revenues, which is recognised in profit or loss on a systematic basis over the useful life of the related assets. Also, during the year ended 31 December 2018 the Group received UAH 27,940 (USD 1,000 thousand) thousand for keeping rearing cattle. This amount was recognised in consolidated statement of profit or loss and other comprehensive income in full.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 10. FINANCE COSTS

Finance costs for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Interest on corporate bonds	93,200	83,102
Transaction costs related to corporate bonds	32,915	4,588
Interest on bank borrowings	11,852	19,430
Interest on obligations under finance leases	1,154	1,211
Bank commissions and other charges	4,417	4,643
<b>Total finance costs</b>	<b>143,538</b>	<b>112,974</b>
<i>Less:</i>		
Finance costs included in the cost of qualifying assets	(5,519)	(4,575)
	<b>138,019</b>	<b>108,399</b>

For qualifying assets, the weighted average capitalization rate on funds borrowed during the year ended 31 December 2018 was 8.60% (2017: 9.69%).

Interest on corporate bonds for the years ended 31 December 2018 and 2017 includes the amortization of premium and debt issue costs on bonds issued in the amounts of USD 6,196 thousand and USD 5,788 thousand, respectively.

#### 11. INCOME TAX

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax. The Tax Code of Ukraine introduced an 18% income tax rate effective from 1 January 2014. The deferred income tax assets and liabilities as of 31 December 2018 and 2017 are measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

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. The tax rates for agricultural producers is calculated as a percentage of the target-ratio based monetary valuation per hectare of agricultural land resulting in substantially lower tax charges compared to CIT. Agricultural manufacturers are eligible to apply for a single tax if they meet both the following two requirements:

1. The share of the entity's revenue from agricultural production (i.e. sale of the entity's cultivated and processed products) to the total share of its income equals or exceeds 75 per cent; and
2. These agriproducts were cultivated on land that such agricultural manufacturers own or lease, and the ownership title and leases have been duly registered.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 11. INCOME TAX (CONTINUED)

The components of income tax expense/(benefit) were as follows for the years ended 31 December 2018 and 2017:

	2018	2017
Current income tax expense	2,169	388
Withholding tax	10,927	-
Deferred tax expense/(benefit)	37,431	(17,506)
<b>Income tax benefit</b>	<b>50,527</b>	<b>(17,118)</b>

The reconciliation between profit before tax from continuing operations multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
<b>Profit before income tax</b>	<b>178,631</b>	<b>213,137</b>
Income tax expense calculated at rates effective during the year ended in respective jurisdictions	36,209	39,171
<b>Tax effect of:</b>		
Income generated by FAT payers and other exempt from income tax	(33,249)	(57,927)
Derecognition and utilisation of previously recognised tax losses	30,802	-
Withholding tax	10,927	-
Non-deductible expenses	1,894	(3,984)
Expenses not deducted for tax purposes	2,129	4,785
Translation loss	1,815	837
<b>Income tax benefit</b>	<b>50,527</b>	<b>(17,118)</b>

Derecognition of previously recognised tax losses results from the reversal of deferred tax liabilities related to property revaluation that were the source of taxable income relied on previously to support recognition.

As of 31 December 2018 and 2017 deferred tax assets and liabilities recognised the following:

	2018	2017
<b>Deferred tax assets arising from:</b>		
Other current liabilities	1,235	800
Inventories	354	28
Tax losses	60,048	90,793
<b>Total deferred tax assets</b>	<b>61,637</b>	<b>91,621</b>
<b>Deferred tax liabilities arising from:</b>		
Property, plant and equipment	(61,908)	(114,684)
Inventories	(493)	(546)
<b>Total deferred tax liabilities</b>	<b>(62,401)</b>	<b>(115,230)</b>
<b>Net deferred tax liabilities</b>	<b>(764)</b>	<b>(23,609)</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset 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 2018 and 2017:

	2018	2017
Deferred tax assets	12,189	121
Deferred tax liabilities	(12,953)	(23,730)
Deferred tax assets not recognised	(12,189)	-
	<b>(12,953)</b>	<b>(23,609)</b>

During the years ended 31 December 2018 and 2017 the Group did not recognize tax losses in the amount of USD 67,717 (USD 12,189 thousand of deferred tax assets), USD 26,582 thousand (USD 4,785 thousand of deferred tax asset), respectively, as the Group did not intend to deduct the relevant expenses for tax purposes in subsequent periods, as there are uncertainties on whether sufficient taxable profits will be generated by particular companies of the Group in the future. There is no expiration date of accounting tax losses according to Tax Code of Ukraine.

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

The movements in net deferred tax liabilities for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
<b>Net deferred tax liabilities as of beginning of the year</b>	<b>(23,609)</b>	<b>(9,703)</b>
Deferred tax (expense)/benefit	(37,431)	17,506
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income	49,357	(30,979)
Translation difference	(1,270)	(433)
<b>Net deferred tax liabilities as of end of the year</b>	<b>(12,953)</b>	<b>(23,609)</b>

Deferred tax benefit on revaluation of property, plant and equipment is related to the intercompany sale of fixed assets from CIT-payers entity to FAT-payers (tax-exempt) entity, which has led to reversal of the respective part of the deferred tax liability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

*(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 2018:

<i>Cost or fair value:</i>										
<b>At 1 January 2018</b>	<b>2,816</b>	<b>586,297</b>	<b>76,837</b>	<b>269,093</b>	<b>43,494</b>	<b>90,111</b>	<b>198,903</b>	<b>8,697</b>	<b>113,351</b>	<b>1,389,599</b>
Additions	1,515	47,748	497	41,730	5,535	10,477	38,887	1,242	91,237	238,868
Disposals	-	(573)	(1)	(1,652)	(137)	(24)	(2,524)	(286)	(149)	(5,346)
Transfers	21	29,955	-	20,707	2,031	3,996	166	49	(56,925)	-
Impairment loss	-	-	-	-	-	-	(1,697)	-	(2,106)	(3,803)
Translation difference	11	6,668	1,043	2,615	464	980	2,110	101	1,086	15,078
<b>At 31 December 2018</b>	<b>4,363</b>	<b>670,095</b>	<b>78,376</b>	<b>332,493</b>	<b>51,387</b>	<b>105,540</b>	<b>235,845</b>	<b>9,803</b>	<b>146,494</b>	<b>1,634,396</b>
<i>Accumulated depreciation:</i>										
<b>At 1 January 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,497</b>	<b>-</b>	<b>6,497</b>
Depreciation charge for the year	-	24,090	5,596	35,511	6,838	5,960	53,720	1,134	-	132,849
Elimination upon disposal	-	(154)	-	(186)	(22)	(5)	(643)	(245)	-	(1,255)
Transfers	-	-	-	-	-	-	-	-	-	-
Translation difference	-	(21)	(98)	(621)	(120)	(104)	(933)	(328)	-	(2,225)
<b>At 31 December 2018</b>	<b>-</b>	<b>23,915</b>	<b>5,498</b>	<b>34,704</b>	<b>6,696</b>	<b>5,851</b>	<b>52,144</b>	<b>7,058</b>	<b>-</b>	<b>135,866</b>
<i>Net book value</i>										
<b>At 1 January 2018</b>	<b>2,816</b>	<b>586,297</b>	<b>76,837</b>	<b>269,093</b>	<b>43,494</b>	<b>90,111</b>	<b>198,903</b>	<b>2,200</b>	<b>113,351</b>	<b>1,383,102</b>
<b>At 31 December 2018</b>	<b>4,363</b>	<b>646,180</b>	<b>72,878</b>	<b>297,789</b>	<b>44,691</b>	<b>99,689</b>	<b>183,701</b>	<b>2,745</b>	<b>146,494</b>	<b>1,498,530</b>

\* Other fixed assets include bearer plants, office furniture and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

(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 2017:

<i>Cost or fair value:</i>										
<b>At 1 January 2017</b>	<b>1,217</b>	<b>518,152</b>	<b>85,267</b>	<b>264,939</b>	<b>41,529</b>	<b>80,030</b>	<b>218,741</b>	<b>7,548</b>	<b>59,401</b>	<b>1,276,824</b>
Additions	1,661	13,783	1,066	7,054	2,315	2,446	23,748	1,415	72,148	125,636
Disposals	-	(507)	(41)	(664)	(44)	(4)	(3,846)	(125)	-	(5,231)
Transfers	66	7,828	7,540	9,629	(6,317)	(2,460)	(3,208)	178	(13,256)	-
Revaluations	-	65,164	(13,733)	(1,785)	7,850	12,686	(27,785)	-	-	42,397
Impairment loss	-	(885)	(158)	(775)	(797)	(94)	(898)	-	-	(3,607)
Translation difference	(128)	(17,238)	(3,104)	(9,305)	(1,042)	(2,493)	(7,849)	(319)	(4,942)	(46,420)
<b>At 31 December 2017</b>	<b>2,816</b>	<b>586,297</b>	<b>76,837</b>	<b>269,093</b>	<b>43,494</b>	<b>90,111</b>	<b>198,903</b>	<b>8,697</b>	<b>113,351</b>	<b>1,389,599</b>
<i>Accumulated depreciation:</i>										
<b>At 1 January 2017</b>	<b>-</b>	<b>9,181</b>	<b>4,417</b>	<b>39,774</b>	<b>2,290</b>	<b>1,794</b>	<b>33,543</b>	<b>5,491</b>	<b>-</b>	<b>96,490</b>
Depreciation charge for the year	-	14,265	6,025	23,566	4,370	2,720	37,099	1,273	-	89,318
Elimination upon disposal	-	(58)	(6)	(1,659)	(66)	(2)	(3,037)	(122)	-	(4,950)
Eliminated on revaluation	-	(22,270)	(9,982)	(59,451)	(6,134)	(4,312)	(65,191)	-	-	(167,340)
Transfers	-	-	-	(5)	3	-	2	-	-	-
Translation difference	-	(1,118)	(454)	(2,225)	(463)	(200)	(2,416)	(145)	-	(7,021)
<b>At 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,497</b>	<b>-</b>	<b>6,497</b>
<i>Net book value</i>										
<b>At 1 January 2017</b>	<b>1,217</b>	<b>508,971</b>	<b>80,850</b>	<b>225,165</b>	<b>39,239</b>	<b>78,236</b>	<b>185,198</b>	<b>2,057</b>	<b>59,401</b>	<b>1,180,334</b>
<b>At 31 December 2017</b>	<b>2,816</b>	<b>586,297</b>	<b>76,837</b>	<b>269,093</b>	<b>43,494</b>	<b>90,111</b>	<b>198,903</b>	<b>2,200</b>	<b>113,351</b>	<b>1,383,102</b>

\* Other fixed assets include bearer plants, office furniture and equipment;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of 31 December 2018, included within construction in progress were prepayments for property, plant and equipment in the amount of USD 13,117 thousand (2017: USD 13,014 thousand).

As of 31 December 2018, included within property, plant and equipment were fully depreciated assets with the original cost of USD 7,040 thousand (2017: USD 5,584 thousand).

As of 31 December 2018 and 2017 the net carrying amount of property, plant and equipment, represented by vehicles and agricultural machinery, held under finance lease agreements was USD 21,449 thousand and USD 21,834 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 2018 and 2017, except for the impairment of certain assets in the amount of USD 3,803 thousand USD 3,607 thousand as of 31 December 2018 and 2017, respectively.

#### Revaluation of vehicles and agricultural machinery

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its vehicles and agricultural machinery. The effective date of revaluation were 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery. During the year ended and as of 31 December 2018, the Group evaluated whether

the fair value of vehicles and agricultural machinery was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of producer's prices, the index of physical depreciation and the functional currency depreciation, Management assessed the fair value of vehicles and agricultural machinery not to be materially different from the reported book values.

#### Revaluation of production machinery

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its production machinery. The effective date of revaluation was 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature depreciated replacement cost method. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of production machinery was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of producer's prices, the index of physical depreciation and the functional currency depreciation, Management assessed the fair value of such production machinery not to be materially different from the reported book values.

#### Revaluation of buildings and structures

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its buildings and structures. The effective date of revaluation was 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using depreciated replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the buildings and structures.

During the year ended and as of 31 December 2018, the Group evaluated if the fair value of buildings and structures was materially different from the reported book values. Based on analysis of the fluctuations of the cumulative index of inflation of construction works and index of physical depreciation, Management assessed the fair value of such buildings and structures not to be materially different from the reported book values.

#### Revaluation of Grain storage facilities

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its grain storage facilities as of 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using depreciated replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of grain storage facilities was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and the index of physical depreciation, Management assessed the fair value of grain storage facilities not to be materially different from the reported book values.

#### Revaluation of Auxiliary and other machinery

During the year ended 31 December 2017, the Group engaged an independent appraiser to determine the fair value of its Auxiliary and other machinery as of 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using the market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature depreciated replacement cost method.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year ended and as of 31 December 2018, the Group evaluated if the fair value of Auxiliary and other machinery was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and the index of physical depreciation, Management assessed the fair value of Auxiliary and other machinery not to be materially different from the reported book values.

#### Revaluation of Utilities and infrastructure

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its utilities and infrastructure as of 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using depreciated replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of utilities and infrastructure was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and the index of physical depreciation, Management assessed the fair value of utilities and infrastructure not to be materially different from the reported book values.

Had the Group's property plant and equipment been measured on a historical cost basis, their carrying amount would have been as follows:

	Fair value hierarchy	Fair value		Net book value if carried at cost	
		2018	2017	2018	2017
Buildings and structures	Level 3	646,180	586,297	266,075	197,780
Grain storage facilities	Level 3	72,878	76,837	31,189	31,013
Production machinery	Level 2, 3	297,789	269,093	171,600	124,617
Vehicles and agricultural machinery	Level 2	183,701	198,903	93,489	82,227
Utilities and infrastructure	Level 3	99,689	90,111	51,771	39,364
Auxiliary and other machinery	Level 2, 3	44,691	43,494	27,195	22,740

There are no restrictions on the distribution of the revaluation surplus to the shareholders.

#### 13. LAND LEASE RIGHTS

Land lease rights represent rights for operating leases of agricultural land plots. The following table represents the movements in land lease rights for the years ended 31 December 2018 and 2017:

	2018	2017
<b>Cost:</b>		
As of 1 January	60,697	54,873
Additions	9,340	7,970
Translation difference	667	(2,146)
<b>As of 31 December</b>	<b>70,704</b>	<b>60,697</b>
<b>Accumulated amortization:</b>		
As of 1 January	15,287	11,028
Amortization charge for the year	6,513	4,859
Translation difference	95	(600)
<b>As of 31 December</b>	<b>21,895</b>	<b>15,287</b>
<b>Net book value:</b>		
As of 1 January	45,410	43,845
<b>As of 31 December</b>	<b>48,809</b>	<b>45,410</b>

#### 14. OTHER NON-CURRENT ASSETS, NET

The balances of other non-current assets, net were as follows as of 31 December 2018 and 2017:

	2018	2017
<b>Financial assets at amortised cost</b>		
Loan receivables	15,980	10,825
Other financial assets	1,377	504
<b>Non-financial instruments</b>		
Prepayment for business acquisition (Note 35)	23,771	-
Other non-financial instruments	18,741	13,488
	<b>59,869</b>	<b>24,817</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 14. OTHER NON-CURRENT ASSETS, NET (CONTINUED)

Loan receivables are represented by loans with fixed interest at 2.5% with maturity as of 31 January 2022 and 31 January 2023. Total gross amortised cost of loans granted as of 31 December 2018 and 2017 is USD 18,766 thousand and USD 10,825 thousand respectively.

The Group determines the lifetime expected credit loss of other non-current loan receivables based on different scenarios of probability of default and expected loss applicable to each of the material underlying balances. The movement in loss allowance for loan receivables classified at amortised cost is detailed below:

	2018
<b>31 December 2017</b>	-
loss allowance under IFRS 9	(1,532)
<b>01 January 2018</b>	<b>(1,532)</b>
charged during the year	(1,254)
<b>31 December 2018</b>	<b>(2,786)</b>

#### 15. BIOLOGICAL ASSETS

The balances of non-current biological assets were as follows as of 31 December 2018 and 2017:

	Thousand units	Carrying amount	Thousand units	Carrying amount
	2018		2017	
Milk cows, units	18.1	19,953	18.3	17,923
Boars and sows, units	0.1	88	0.3	117
Other non-current bearer biological assets		539		470
<b>Total bearer non-current biological assets</b>		<b>20,580</b>		<b>18,510</b>
Non-current cattle and pigs, units	3.6	2,812	3.8	1,895
<b>Total consumable non-current biological assets</b>		<b>2,812</b>		<b>1,895</b>
<b>Total non-current biological assets</b>		<b>23,392</b>		<b>20,405</b>

The balances of current biological assets were as follows as of 31 December 2018 and 2017:

	Thousand units	Carrying amount	Thousand units	Carrying amount
	2018		2017	
Breeders held for hatchery eggs production, units	3,954	66,509	3,473	55,716
<b>Total bearer current biological assets</b>		<b>66,509</b>		<b>55,716</b>
Broiler chickens, units	44,199	64,519	40,355	54,207
Hatchery eggs, units	33,063	8,253	35,776	9,016
Crops in fields, hectare	92	37,416	88	20,623
Cattle and pigs, units	6	2,132	8	1,250
Other current consumable biological assets		461		216
<b>Total consumable current biological assets</b>		<b>112,781</b>		<b>85,312</b>
<b>Total current biological assets</b>		<b>179,290</b>		<b>141,028</b>

Other current consumable biological assets include geese and other livestock

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)***15. BIOLOGICAL ASSETS (CONTINUED)**

The following table represents movements in major biological assets for the years ended 31 December 2018 and 2017:

	Milk cows, boars, sows	Breeders held for hatchery eggs production	Broiler chickens	Crops in fields
<b>As of 31 December 2016</b>	<b>12,764</b>	<b>46,483</b>	<b>40,558</b>	<b>20,977</b>
Costs incurred	7,479	102,702	450,363	239,908
Gains arising from change in fair value of biological assets less costs to sell	13,936	29,651	242,893	67,932
Transfer to consumable biological assets	-	(110,586)	110,586	-
Transfer to bearing non-current biological assets	7,675	-	-	-
Decrease due to sale	(417)	-	-	-
Decrease due to harvest	(22,698)	(10,491)	(788,100)	(307,522)
Translation difference	(699)	(2,043)	(2,093)	(672)
<b>As of 31 December 2017</b>	<b>18,040</b>	<b>55,716</b>	<b>54,207</b>	<b>20,623</b>
Costs incurred	2,553	129,737	585,798	295,960
Gains arising from change in fair value of biological assets less costs to sell	17,889	6,071	243,746	120,541
Transfer to consumable biological assets	-	(110,376)	110,376	-
Transfer to bearing non-current biological assets	1,395	-	-	-
Decrease due to sale	(143)	-	-	-
Decrease due to harvest	(19,918)	(15,222)	(930,190)	(399,998)
Translation difference	225	583	582	290
<b>As of 31 December 2018</b>	<b>20,041</b>	<b>66,509</b>	<b>64,519</b>	<b>37,416</b>

Information on movements in hatchery eggs and cattle and pigs groups have been considered immaterial for disclosure.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

## 15. BIOLOGICAL ASSETS (CONTINUED)

Biological assets of the Group are measured at fair value within Level 3 of the fair value hierarchy, except for cattle and pigs that can be measured based on market prices of livestock of a similar age, breed and genetic merit, and which are therefore measured at fair value within Level 2 of the fair value hierarchy. There were no transfers between any levels during the year.

The following unobservable inputs were used to measure biological assets:

Description	Fair value as of 31 December 2018	Fair value as of 31 December 2017	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (average) 2018	Range of unobservable inputs (average) 2017	Relationship of unobservable inputs to fair value
Crops in fields	37,416	20,623	Discounted cash flows	Crops yield – tonnes per hectare	3.5 – 6.1 (4.9)	3.3 – 6.0 (5.0)	The higher the crops yield, the higher the fair value
				Crops price – per tonne	USD 160 – 380 (253)	USD 118 – 362 (209)	The higher the market price, the higher the fair value
				Discount rate	18.0%	18.1%	The higher the discount rate, the lower the fair value
Breeders held for hatchery eggs production	66,509	55,716	Discounted cash flows	Number of hatchery eggs produced by one breeder	165	160	The higher the number, the higher the fair value
				Hatchery egg price – per egg	USD 0.25	USD 0.25	The higher the market price, the higher the fair value
				Discount rate	15.7%	12.7%	The higher the discount rate, the lower the fair value
Broiler chickens	64,519	54,207	Cash flows	Average weight of one broiler – kg	2.33	2.34	The higher the weight, the higher the fair value
				Poultry meat price – per kg	UAH 30.36	UAH 29.35	The higher the market price, the higher the fair value
Milk cows	19,953	17,923	Discounted cash flows	Daily milk yield – litre per cow	15.89 – 19.76 (18.55)	16.80 – 17.55 (17.12)	The higher the milk yield, the higher the fair value
				Weight of the cow – kg per cow	523 – 567 (548)	521 – 559 (544)	The higher the weight, the higher the fair value
				Milk price – per litre	UAH 7.62 – 8.68 (7.93)	UAH 7.32 – 8.11 (7.55)	The higher the market price, the higher the fair value
				Meat price – per kg	UAH 18.69 – 24.22 (22.81)	UAH 22.27 – 25.96 (24.41)	The higher the market price, the higher the fair value
				Discount rate	15.7%	12.7%	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the current and non-current biological assets would increase /decrease by USD 71,964 thousand (2017: USD 42,440 thousand) and USD 64,758 thousand (2017: USD 39,612 thousand), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

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## 16. INVENTORIES

The balances of inventories were as follows as of 31 December 2018 and 2017:

	2018	2017
Components for mixed fodder production	157,203	127,812
Other raw materials	37,471	32,645
Work in progress	33,155	28,581
Sunflower oil	22,140	17,970
Spare parts	16,010	10,916
Packaging materials	3,455	3,041
Mixed fodder	3,016	3,521
Other inventories	1,072	1,882
	<b>273,522</b>	<b>226,368</b>

As of 31 December 2018 and 2017 work in progress in the amount of USD 33,155 thousand and USD 28,581 thousand comprised expenses incurred in cultivating fields to be planted in the years 2018 and 2017, respectively.

## 17. AGRICULTURAL PRODUCE

The balances of agricultural produce were as follows as of 31 December 2018 and 2017:

	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
	2018		2017	
Chicken meat	29.7	40,651	37.9	48,103
Other meat	N/A*	2,147	N/A*	1,618
Grain	1,105	168,044	788	120,537
Other crops	N/A*	13,947	N/A*	13,149
		<b>224,789</b>		<b>183,407</b>

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

The fair value of Agricultural produce was estimated based on market price as of date of harvest and is within Level 2 of the fair value hierarchy.

As of 31 December 2018, agricultural produce with carrying amount of USD 23,750 thousand (2017: USD nil) was pledged as collateral to secure bank borrowings (Note 24).

## 18. TAXES RECOVERABLE AND PREPAID

Taxes recoverable and prepaid were as follows as of 31 December 2018 and 2017:

	2018	2017
VAT recoverable	39,834	31,530
Miscellaneous taxes prepaid	5,312	6,237
	<b>45,146</b>	<b>37,767</b>

## 19. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable were as follows as of 31 December 2018 and 2017:

	2018	2017
Chicken meat	57,834	47,104
Meat processing and convenience food	12,761	11,666
Grain	3,748	3,614
Sunflower oil sales	508	324
Due from related parties (Note 28)	111	109
Other agriculture operations	6,724	3,731
Less: allowance for irrecoverable amounts	(12,381)	(4,243)
	<b>69,305</b>	<b>62,305</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 19. TRADE ACCOUNTS RECEIVABLE, NET (CONTINUED)

The average credit period on sales of poultry is 30 days and on sales of agricultural goods is 60 days. No interest is charged on outstanding trade accounts receivable. The Group always measures the loss allowance for trade accounts receivable at an amount equal to lifetime ECL. The expected credit losses on trade accounts receivable are estimated on a collective basis using a provision matrix and on individual basis using different scenarios of probability of default.

The provision matrix is used by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

An individual assessment is used for the individually significant debtors with credit risk characteristics that are not aligned with others.

The Group has recognised a loss allowance of 100% against all trade accounts receivable over 270 days past due, which are assessed on a collective basis, because historical experience has indicated that these trade accounts receivable are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period. The Group writes off a trade accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade accounts receivable are over 3 years past due, whichever occurs earlier. None of the trade accounts receivable that have been written off are subject to enforcement activities.

The following table details the risk profile of trade accounts receivable based on the Group's provision matrix. It discloses chicken meat Ukraine, chicken meat export and agricultural Ukraine, agricultural export sales as separate classes of financial instruments and applies the simplified approach to its trade accounts receivable so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach:

31 December 2018	Trade accounts receivable – days past due					Total
	Not past due	< 30	31-90	91-270	>270	
<b>Portfolio assessment:</b>						
<i>Chicken meat Ukraine</i>						
ECL rate, %	0.01%	0.3%	1.24%	8.92%	100.0%	
Estimated total gross carrying amount at default	19,984	1,591	54	13	30	21,672
Lifetime ECL	(2)	(4)	(1)	(1)	(30)	(38)
<i>Chicken meat export</i>						
ECL rate, %	0.21%	0.16%	0.55%	5.71%	100.0%	
Estimated total gross carrying amount at default	15,241	7,224	1,559	444	1,705	26,173
Lifetime ECL	(32)	(12)	(9)	(25)	(1,705)	(1,783)
<i>Agricultural Ukraine</i>						
ECL rate, %	0.23%	1.30%	1.76%	3.08%	100.0%	
Estimated total gross carrying amount at default	15,266	2,262	1,342	212	347	19,429
Lifetime ECL	(35)	(29)	(24)	(7)	(347)	(442)
<i>Agricultural export</i>						
ECL rate, %	0.07%	1.47%	42.24%	42.90%	100.0%	
Estimated total gross carrying amount at default	4,288	-	8	7	120	4,423
Lifetime ECL	(3)	-	(3)	(3)	(120)	(129)
<b>Estimated total gross carrying amount at default</b>						<b>71,697</b>
Total lifetime ECL						(2,392)
<b>Individual assessment</b>						
ECL rate, %	0.00%	0.00%	0.00%	0.00%	100.0%	
Estimated total gross carrying amount at default	-	-	-	-	9,989	9,989
Lifetime ECL	-	-	-	-	(9,989)	(9,989)
<b>Estimated total gross carrying amount at default</b>						<b>81,686</b>
<b>Total lifetime ECL</b>						<b>(12,381)</b>

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#### 19. TRADE ACCOUNTS RECEIVABLE, NET (CONTINUED)

The following table shows the movement in lifetime ECL that has been recognised for trade and other accounts receivable in accordance with the simplified approach set out in IFRS 9. Note that Management considered that it would take undue cost and effort to determine whether the credit risk for trade and other receivables has increased significantly for amounts recognised prior to IFRS 9 adoption therefore comparative information has not been presented.

	Collectively assessed	Individually assessed
<b>31 December 2017</b>	<b>453</b>	<b>3,790</b>
Additional loss allowance under IFRS 9	-	6,390
<b>01 January 2018</b>	<b>453</b>	<b>10,180</b>
Charged/(reversed) during the year	1,939	(191)
<b>31 December 2018</b>	<b>2,392</b>	<b>9,989</b>

#### 20. OTHER CURRENT ASSETS

The balances of other current assets, net were as follows as of 31 December 2018 and 2017:

	2018	2017
<b>Financial assets at amortised cost</b>		
Loans and finance aid receivable from related parties (Note 28)	5,950	3,182
Other financial assets	1,409	1,222
<b>Non-financial instruments</b>		
Prepayments to suppliers	19,106	14,889
Other non-financial instruments	6,393	6,034
	<b>32,858</b>	<b>25,327</b>

#### 21. CASH AND CASH EQUIVALENTS

The balances of cash and cash equivalents were as follows as of 31 December 2018 and 2017:

	2018	2017
Cash on hand and with banks	211,768	125,536
UAH short-term deposits with banks	-	18
	<b>211,768</b>	<b>125,554</b>

In accordance with the international rating agency of Moody's, credit ratings of the banks with which the Group had the accounts opened as of 31 December were as follows:

	2018	2017
International banks with Aa3 rating	158,784	86,688
Ukrainian subsidiaries of international banks without international ratings	37,008	26,199
Ukrainian state owned bank with Caa1	9,296	5,344
Foreign banks without ratings	6,680	7,323
	<b>211,768</b>	<b>125,554</b>

#### 22. SHAREHOLDERS' EQUITY

##### Share capital

As of 31 December 2018 and 2017 the authorized, issued and fully paid share capital of MHP SE comprised the following number of shares:

	2018	2017
Number of shares issued and fully paid	110,770,000	110,770,000
Number of shares outstanding	107,038,208	106,781,794

The authorized share capital as of 31 December 2018 and 2017 was EUR 221,540 thousand represented by 110,770,000 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

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## 23. NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2018	2017	2018	2017	2018	2017
AgroKryazh	49%	-	-	-	5,016	-
Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv	11.5%	11.5%	(901)	(1,221)	3,816	4,178
Other subsidiaries with immaterial non-controlling interests	n/a	n/a	4,079	2,752	7,704	12,963
	<b>n/a</b>	<b>n/a</b>	<b>3,178</b>	<b>1,531</b>	<b>16,536</b>	<b>17,141</b>

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv		AgroKryazh
Current assets	171,328	212,203	20,748
Non-current assets	112,646	94,348	12,013
Current liabilities	167,829	203,197	19,837
Non-current liabilities	84,971	85,315	-
Equity attributable to owners of the Group	27,357	13,861	7,908
Revenue	317,802	424,171	19,518
Expenses	(325,631)	(434,786)	(15,952)
Loss for the year	(7,829)	(10,615)	3,566
Loss attributable to owners of the Group	(6,929)	(9,394)	3,566
Loss attributable to the non-controlling interests	(900)	(1,221)	-
Loss for the year	(7,829)	(10,615)	3,566
Other comprehensive income attributable to owners of the Company	4,149	13,555	23
Other comprehensive income attributable to the non-controlling interests	539	1,761	22
Other comprehensive income for the year	4,688	15,316	45
Total comprehensive (loss)/income attributable to owners of the Company	(2,780)	4,161	3,589
Total comprehensive (loss)/income attributable to the non-controlling interests	(361)	540	22
Total comprehensive (loss)/income for the year	(3,141)	4,701	3,611
Net cash inflow/(outflow) from operating activities	10,666	(489)	4,202
Net cash outflow from investing activities	(10,318)	(3,622)	(977)
Net cash outflow from financing activities	-	-	(3,216)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 24. BANK BORROWINGS

The following table summarizes bank borrowings and credit lines outstanding as of 31 December 2018 and 2017:

		2018		2017	
Bank	Currency	WAIR*	USD' 000	WAIR*	USD' 000
Non-current					
Foreign banks	USD	7.99%	56,718	7.72%	121,576
Foreign banks	EUR	4.72%	49,065	2.57%	17,241
			105,783		138,817
Current					
Ukrainian banks	UAH	-	-	13.00%	9,620
Ukrainian banks	EUR	3.76%	12,943	-	-
Ukrainian banks	USD	4.50%	48,000	-	-
Current portion of					
long-term bank borrowings USD, EUR			71,772		27,297
			132,715		36,917
<b>Total bank borrowings</b>			<b>238,498</b>		<b>175,734</b>

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement

reached with each bank. Interest on the borrowings drawn with the Ukrainian banks is payable on a monthly or quarterly basis. Interest on borrowings drawn with foreign banks is payable semi-annually.

Term loans and credit line facilities were as follows as of 31 December 2018 and 2017:

	2018	2017
Credit lines	60,943	9,620
Term loans	177,555	166,114
	<b>238,498</b>	<b>175,734</b>

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

As of 31 December 2018 and 2017 all of the Group's foreign bank term loans and credit lines bear floating interest rates. Bank borrowings and credit lines outstanding as of 31 December 2018 and 2017 were repayable as follows:

	2018	2017
Within one year	132,715	36,917
In the second year	56,719	72,950
In the third to fifth year inclusive	42,271	58,719
After five years	6,793	7,148
	<b>238,498</b>	<b>175,734</b>

As of 31 December 2018, the Group had available undrawn facilities of USD 316,429 thousand (2017: USD 264,895 thousand). These undrawn facilities expire during the period from March 2019 until February 2022.

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: liability to equity ratio, net debt to Adjusted EBITDA ratio, Adjusted 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 2018 and 2017 the Group has complied with all covenants imposed by banks providing the borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 24. BANK BORROWINGS (CONTINUED)

The Group's bank borrowings are jointly and severally guaranteed by Myronivsky Hliboprodukt, Myronivsky Plant of Manufacturing Feeds and Groats, Oril-Leader, Peremoga Nova, Starynska Ptakhofabryka, Zernoproduct MHP, Katerinopilskiy Elevator, Agrofort, SPF Urozhay, MHP SE, Scylla Capital Limited, Myronivska Pticefabrika, Ptakhofabryka Snyatynska Nova, Vinnytska Ptakhofabryka, Zakhid-Agro MHP, Urozhayna Krayina, Raftan Holding Limited, Merique Holding Limited.

As of 31 December 2018, the Group had deposits with banks in the amount of USD 3,387 thousand (2017: USD 2,524 thousand) that were restricted as collateral to secure bank borrowings.

As of 31 December 2018, the Group had borrowings of USD 19,000 thousand that were secured. These borrowings were secured by agricultural produce with a carrying amount of USD 23,750 thousand (Note 17).

As of 31 December 2018 and 2017 accrued interest on bank borrowings was USD 3,150 thousand and USD 2,578 thousand, respectively.

#### 25. BONDS ISSUED

Bonds issued and outstanding as of 31 December 2018 and 2017 were as follows:

	2018	2017
8.25% Senior Notes due in 2020	79,417	495,600
7.75% Senior Notes due in 2024	500,000	500,000
6.95% Senior Notes due in 2026	550,000	-
Unamortised debt issuance cost	(38,482)	(25,512)
<b>Total long-term portion of bonds issued</b>	<b>1,090,935</b>	<b>970,088</b>

As of 31 December 2018 and 2017 accrued interest on bonds issued was USD 16,322 thousand and USD 15,377 thousand, respectively.

#### 6.95% Senior Notes

On 3 April 2018, MHP Lux S.A., a public company with limited liability (société anonyme) incorporated in 2018 under the laws of the Grand Duchy of Luxembourg, issued USD 550,000 thousand 6.95% Senior Notes due in 2026 at par value. Out of the total issue amount USD 416,183 thousand were designated for redemption and exchange of existing 8.25% Senior Notes due in 2020.

Early redemption of 8.25% Senior Notes due in 2020 out of issue of 6.95% Senior Notes due in 2026, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange and thus, all the related expenses, including part of consent fees, were capitalized and will be amortised over the maturity period of the 6.95% Senior Notes due in 2026.

The part of expenses, connected with placement of 6.95% Senior Notes amounted to USD 11,564 thousand were capitalized, including USD 10,413 thousands related to the exchange. All other related expenses in the amount of USD 32,915 thousand were expensed as incurred.

As a result of a non-substantial modification, the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate was recognised as a gain in the amount of USD 4,733 thousand at the date of modification in the consolidated statement of profit or loss.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP SE, PrJSC "Myronivsky Hliboprodukt", PJSC "Myronivsky Plant of Manufacturing Feeds and Groats", PrJSC "Zernoproduct MHP", PrJSC "Agrofort", PrJSC "Oril-Leader", PrJSC "Myronivska Pticefabrika", "SPF "Urozhay" LLC, "Starynska Ptakhofabryka" ALLC, "Vinnytska Ptakhofabryka" LLC, "Peremoga Nova" SE, "Katerinopolskiy Elevator" LLC, Scylla Capital Limited and Raftan Holding Limited.

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 the indenture, 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, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 25. BONDS ISSUED (CONTINUED)

##### 6.95% Senior Notes (continued)

outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. 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.

##### 7.75% Senior Notes

On 10 May 2017, MHP SE issued USD 500,000 thousand 7.75% Senior Notes due in 2024 at par value. Out of the total issue amount USD 245,200 thousand were designated for redemption and exchange of existing 8.25% Senior Notes due in 2020.

Early redemption of 8.25% Senior Notes due in 2020 out of issue of 7.75% Senior Notes due in 2024, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange and thus, all the related expenses, including part of consent fees, were capitalized and will be amortised over the maturity period of the 7.75% Senior Notes due in 2024.

The part of expenses, connected with placement of 7.75% Senior Notes amounted to USD 9,830 thousand were capitalized, including USD 7,318 thousands related to the exchange. All other

related expenses, including part of consent fees, in the amount of USD 4,599 thousand were expensed as incurred.

The carrying amount of the Senior Notes was adjusted on transition to IFRS 9. Under IFRS 9, as a result of a non-substantial modification, the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate should be recognised as a gain at the date of modification. The difference between the carrying amount of the Senior Notes under IAS 39 and IFRS 9 was recognised in opening retained earnings in the amount of USD 7,566 thousand (Note 3).

The Senior Notes are jointly and severally guaranteed on a senior basis by PrJSC “Myronivsky Hliboprodukt”, PJSC “Myronivsky Plant of Manufacturing Feeds and Groats”, PrJSC “Zeroproduct MHP”, PrJSC “Agrofort”, PrJSC “Oril-Leader”, PrJSC “Myronivska Pticefabrika”, “SPF “Urozhay” LLC, “Starynska Ptakhofabryka” ALLC, Vinnytska Ptakhofabryka LLC, SE “Peremoga Nova”, “Katerinopolskiy Elevator” LLC, Scylla Capital Limited, Raftan Holding Limited.

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 the indenture, 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, the Trustee or the Holders of at least 25% in

principal amount of the then outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. 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.

##### 8.25% Senior Notes

On 8 April 2013, MHP SE issued USD 750,000 thousand 8.25% Senior Notes due in 2020 at an issue price of 100% of the principal amount. USD 350,000 thousand out of issued USD 750,000 thousand 8.25% Senior Notes were used to early redemption and exchange of its existed 10.25% Senior Notes due in 2015.

Early redemption of 10.25% Senior Notes due in 2015 out of issue of 8.25% Senior Notes due in 2020, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange and thus all the related expenses, including consent fees, were capitalized and will be amortised over the maturity period of the 8.25% Senior Notes due in 2020.

The part of expenses, connected with placement of 8.25% Senior Notes amounted to USD 28,293 thousand were capitalized, including USD 22,813 thousands related to the exchange. All other related expenses, including part of consent fees, in the amount of USD 16,515 thousand were expensed as incurred.

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### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 25. BONDS ISSUED (CONTINUED)

##### 8.25% Senior Notes (continued)

The carrying amount of the Senior Notes was adjusted on transition to IFRS 9. Under IFRS 9, as a result of a non-substantial modification, the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate should be recognised as a gain at the date of modification. The difference between the carrying amount of the Senior Notes under IAS 39 and IFRS 9 was recognised in opening retained earnings in the amount of USD 3,260 thousand (Note 3).

The Senior Notes are jointly and severally guaranteed on a senior basis by PrJSC “Myronivsky Hliboproduct”, SE “Peremoga Nova”, PrJSC “Oril-Leader”, PJSC “Myronivsky Plant of Manufacturing Feeds and Groats”, PrJSC “Zernoproduct MHP”, PrJSC “Myronivska Pticefabrika”, “Starynska Ptakhofabryka” ALLC, Snyatynska Ptakhofabryka, “Katerinopolskiy Elevator” LLC, PrJSC “Agrofort”, “SPF “Urozhay” LLC, Vinnytska Ptakhofabryka LLC, Scylla Capital Limited, Raftan Holding Limited, Merique Holding Limited.

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 the 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, the Trustee or the Holders of at least 25% in principal

amount of the then outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. 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.

##### Consent solicitation

On 12 October 2018, the Group received consent from the Holders of the outstanding USD 79,417 thousand 8.25% Senior Notes for certain proposed amendments to the Indenture and the Notes. The Amendments were implemented by way of execution of the Supplemental Indenture on 15 October 2018, and became effective from the Consent Settlement Date (17 October 2018).

In relation to the Notes, the Company has, on the Consent Settlement Date, paid to those Holders from whom valid Consents were delivered and not revoked on or prior to the Consent Expiration Date and which Consents were accepted by the Company the Consent Payment of USD 10.00 for each USD 1 thousand in principal amount of the Notes that were subject of the relevant Electronic Instructions.

During the reporting years ended 31 December 2018 and 31 December 2017 the Group has complied with all covenants defined by indebtedness agreement.

The weighted average effective interest rate on the Senior Notes is 8.60% per annum and 9.25% per annum for the year ended 31 December 2018 and year ended 31 December 2017, respectively.

##### Cash flow presentation

Though the Group believes that all necessary disclosures regarding the impact of cash flows arising from the bonds exchange were made in this Note to the consolidated financial statements, the Group decided that reporting cash flows from these transactions on the gross basis in the statement of cash flows provides users with more relevant information.

Thus, in 2018 the Group decided to change presentation of cash flows from the bonds exchange from a net to a gross basis. In order to conform to the presentation in the statement of cash flows for the year ended 31 December 2018 the comparative information for the year ended 31 December 2017 has been restated. For this purpose, the Group reflected in 2017 the gross proceeds from bonds issued in the amount of USD 500,000 thousand and repayment of bonds in the amount of USD 254,400 thousand (this amount includes a repayment of the bonds in the amount USD 9,200 thousand previously reported separately), in contrast to the USD 254,800 thousand presented on net basis in prior year. This change did not have an impact on the Net cash flows from financing activities for the year ended 31 December 2017.

#### 26. FINANCE LEASE OBLIGATIONS

Long-term finance lease obligations represent amounts due under agreements for the leasing of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2018, the weighted average interest rates on finance lease obligations were 6.40% and 8.61% for finance lease obligations denominated in EUR and USD, respectively (2017: 7.78% and 9.77%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 26. FINANCE LEASE OBLIGATIONS (CONTINUED)

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2018 and 2017:

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	2018	2017
Payable within one year	5,409	4,979	4,355	4,040
Payable in the second year	4,764	3,780	4,050	3,118
Payable in the third to fifth year inclusive	5,660	4,875	5,037	4,292
	<b>15,833</b>	<b>13,634</b>	<b>13,442</b>	<b>11,450</b>
Less:				
Future finance charges	(2,391)	(2,184)	-	-
<b>Present value of finance lease obligations</b>	<b>13,442</b>	<b>11,450</b>	<b>13,442</b>	<b>11,450</b>
Less:				
Current portion			(4,355)	(4,040)
<b>Finance lease obligations, long-term portion</b>			<b>9,087</b>	<b>7,410</b>

#### 27. OTHER CURRENT LIABILITIES

Other current liabilities were as follows as of 31 December 2018 and 2017:

	2018	2017
<b>Financial liabilities at amortised cost</b>		
Accrued payroll	37,698	25,456
Amounts payable for property, plant and equipment	16,146	11,173
Other financial liabilities	6,327	3,946
<b>Non-financial instruments</b>		
Advances from third parties	30,388	6,774
Payroll related taxes	3,138	2,184
Other non-financial instruments	2,686	763
	<b>96,383</b>	<b>50,296</b>

#### 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. 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 2018 and 2017 were as follows:

	2018	2017
Loans provided to key management personnel	768	425
Purchases from related parties	44	32
Loans and finance aid provided	8,091	-
Loans and finance aid repaid	5,322	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(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 2018 and 2017:

	2018	2017
Loans and finance aid receivable	5,950	3,188
Loans to key management personnel	971	956
Trade accounts receivable (Note 19)	111	109
Payables due to related parties	19	17

#### Compensation of key management personnel

Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of profit and loss and other comprehensive income amounted to USD 16,809 thousand and USD 14,143 thousand for the years ended 31 December 2018 and 2017, respectively. Compensation of key management personnel consists of contractual salary and performance bonuses.

The Group has provided several of its key management personnel with short-term loans at rates comparable to the average commercial rate of interest. The loans to key management personnel are unsecured.

Total compensation of the Group's independent non-executive directors, which consists of contractual salary, amounted to USD 1,106 thousand and USD 460 thousand in 2018 and 2017, respectively.

Key management personnel totalled 35 and 37 individuals as of 31 December 2018 and 2017, respectively, including 4 and 2 independent non-executive directors as of 31 December 2018 and 2017, respectively.

#### Other transactions with related parties

In December 2018 the Group increased its effective ownership interest in Agrofort to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 256,414 treasury shares held by the Group. The difference between fair value of shares transferred and their carrying value in the amount of USD 1,269 thousand was recognised as an adjustment to additional paid-in capital. The difference between fair value of shares transferred and the carrying value of non-controlling interest was recognised as an adjustment to retained earnings in the amount of USD 997 thousand.

#### 29. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

##### Operating Environment

In 2018, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% to USD and 8.2% to EUR comparing to previous year averages.

Also Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain

parts of Luhanska and Donetska regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union ("EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

In terms of currency regulations, the new currency law was adopted in 2018 and came into force on 7 February 2019. It purports to enable the NBU to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund ("IMF"), and smooth transition through presidential and parliamentary elections, due in March and October 2019, respectively.

The management of the Group believes that the negative impact of the political and economic turmoil at the Group's entities is reasonably limited due to the Group's significant portion of export sales, its access to the international financial markets and the significant distance of its main production sites from any conflict zones.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 29. CONTINGENCIES AND CONTRACTUAL COMMITMENTS (CONTINUED)

##### Taxation and legal issues

Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. The local and national tax environment 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.

Management believes that the Group has been in compliance with all requirements of effective tax legislation and currently is assessing the possible impact of the introduced amendments.

The Group exports vegetable oil, chicken meat and related products, and performs intercompany transactions, which may potentially be in the scope of the Ukrainian transfer pricing ("TP") regulations. The Group has submitted the controlled transaction

report for the year ended 31 December 2017 within the required deadline, and has prepared all necessary documentation on controlled transactions for the years ended 31 December 2018 as required by legislation and plans to submit reports.

As of 31 December 2018, the Group's management assessed its possible exposure to tax risks for a total amount of USD 4,452 thousand related to corporate income tax (31 December 2017: USD 4,392 thousand). No provision was recognised relating to such possible tax exposure.

As of 31 December 2018, companies of the Group were engaged in ongoing litigation with tax authorities for the amount of USD 2,831 thousand (2017: USD 2,273 thousand), including USD 2,108 thousand (2017: USD 1,534 thousand) of litigations with the tax authorities related to disallowance of certain amounts of VAT refunds and deductible expenses claimed by the Group. Of this amount, USD 1,228 thousand as of 31 December 2018 (2017: USD 1,457 thousand) relates to cases where court hearings have taken place and where the court in either the first or second instance has already ruled in favour of the Group. Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and, therefore, no respective provision is required in the Group's financial statements as of the reporting date.

##### Contractual commitments on purchase of property, plant and equipment

During the years ended 31 December 2018 and 2017, 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 2018, purchase commitments amounted to USD 16,826 thousand (2017: USD 17,412 thousand).

##### Commitments on land operating leases

The Group has the following contractual obligations in respect of agricultural land operating leases as of 31 December 2018 and 2017:

	2018	2017
Within one year	31,330	20,833
In the second to the fifth year inclusive	104,346	69,896
After fifth year	112,078	60,933
	<b>247,754</b>	<b>151,662</b>

The aforementioned commitments with respect to land operating leases comprised both contractual and constructive obligations.

Ukrainian legislation provides for a ban on sales of agricultural land plots until 1 January 2020. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 30. DIVIDENDS

On 6 March 2018, the Board of Directors of MHP SE approved the payment of an interim dividend of USD 0.7492 per share, equivalent to approximately USD 80,000 thousand, which were paid to shareholders during the year ended 31 December 2018.

#### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosure” and IFRS 13 “Fair value measurement”. Fair value is the price that would be expected to be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (most advantageous) market at the measurement date under current market conditions. Where available, market values have been used to determine fair values. When market values are not available, fair values have been calculated by discounting expected cash flows at prevailing market interest and exchange rates. The estimated fair values have been determined using market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that Group could realise in the normal course of business.

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

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

	Carrying amount		Fair value	
	2018	2017	2018	2017
Financial liabilities				
Bank borrowings (Note 24)	241,648	178,312	233,898	168,627
Senior Notes due in 2020, 2024 (Note 25)	1,107,257	985,465	1,027,226	1,085,693
Finance lease obligations (Note 26)	13,442	11,450	13,726	11,691

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

The fair value of bank borrowings and finance lease obligations as of 31 December 2018 was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings: 8.0% (2017: 7.7%) and for finance lease obligations of 8.2% (2017: 9.3%), and is within Level 2 of the fair value hierarchy.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

*(in thousands of US dollars, unless otherwise indicated)*

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

## Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	Cash flow from proceeds / (repayments)	Transaction costs payments	Non-cash movements			31 December 2018
				Foreign exchange movements	Purchases through direct bank-lender payments to the vendor and under finance lease and vendor financing agreements	Amortisation and write-off of transaction costs	
Bank borrowings (Note 24)	175,734	53,493	(384)	(2,954)	11,377	1,232	238,498
Senior Notes due in 2020, 2024, 2026 (Note 25)	959,262	133,817	(45,460)	(20)	-	43,336	1,090,935
Finance lease obligations (Note 26)	11,450	(4,416)	-	(366)	6,774	-	13,442
	<b>1,146,446</b>	<b>182,894</b>	<b>(45,844)</b>	<b>(3,340)</b>	<b>18,151</b>	<b>44,568</b>	<b>1,342,875</b>

	1 January 2017	Cash flow from proceeds / (repayments)	Transaction costs payments	Non-cash movements			31 December 2017
				Foreign exchange movements	Purchases through direct bank-lender payments to the vendor and under finance lease and vendor financing agreements	Amortisation and write-off of transaction costs	
Bank borrowings (Note 23)	496,374	(332,902)	(1,993)	6,325	7,135	795	175,734
Senior Notes due in 2020, 2024, 2026 (Note 24)	725,361	245,600	(15,145)	4	-	14,268	970,088
Finance lease obligations (Note 26)	13,625	(9,217)	-	1,524	5,518	-	11,450
	<b>1,235,360</b>	<b>(96,519)</b>	<b>(17,138)</b>	<b>7,853</b>	<b>12,653</b>	<b>15,063</b>	<b>1,157,272</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)***32. RISK MANAGEMENT POLICIES**

During the years ended 31 December 2018 and 2017 there were no material changes to the objectives, policies and process for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

**Capital risk management**

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

The Group's target is to achieve a leverage ratio (net debt to adjusted operating profit) of not higher than 3.0. The Group defines its leverage ratio as the proportion of net debt to adjusted operating profit.

As of 31 December 2018 and 2017 the leverage ratio was as follows:

	2018	2017
Bank borrowings (Note 24)	238,498	175,734
Bonds issued (Note 25)	1,090,935	970,088
Finance lease obligations (Note 26)	13,442	11,450
<b>Total Debt</b>	<b>1,342,875</b>	<b>1,157,272</b>
<i>Less:</i>		
Cash and cash equivalents (Note 21)	(211,768)	(125,554)
<b>Net debt</b>	<b>1,131,107</b>	<b>1,031,718</b>
<b>Operating profit before loss on impairment of property, plant and equipment</b>	<b>314,926</b>	<b>365,363</b>
<i>Adjustments for:</i>		
Depreciation and amortization expense (Notes 7, 8)	134,953	93,225
<b>Adjusted operating profit</b>	<b>449,879</b>	<b>458,588</b>
Net debt to adjusted operating profit	2.51	2.25

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

#### 32. 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. 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

	2018	2017
<b>Financial assets:</b>		
Other non-current assets, net (Note 14)	17,357	11,329
Long-term bank deposits	3,387	2,524
Other current assets (Note 20)	7,359	4,404
Trade accounts receivable, net (Note 19)	69,305	62,305
Cash and cash equivalents (Note 21)	211,768	125,554
	<b>309,176</b>	<b>206,116</b>
<b>Financial liabilities:</b>		
Bank borrowings (Note 24)	238,498	175,734
Bonds issued (Note 25)	1,090,935	970,088
Finance lease obligations (Note 26)	13,442	11,450
Amounts payable for property, plant and equipment (Note 27)	16,146	11,173
Accrued interest (Note 24,25)	19,472	17,955
Trade accounts payable	66,398	43,175
Accrued payroll (Note 27)	37,698	25,456
Other payables (Note 27)	6,327	3,946
	<b>1,488,916</b>	<b>1,258,977</b>

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 does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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 10-30 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. As of 31 December 2018 about 26% (2017: 26%) of trade accounts receivable comprise amounts due from 12 large supermarket chains, which have the shortest contractual receivable settlement period among customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

##### 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 2018***(in thousands of US dollars, unless otherwise indicated)***32. 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 2018 and 2017. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

	Carrying amount	Contractual Amounts	Less than 1 year	From 2nd to 5th year	After 5th year
<i>Year ended</i>					
<i>31 December 2018</i>					
Bank borrowings	241,648	257,354	142,301	107,944	7,109
Bonds issued	1,107,257	1,639,058	83,527	390,593	1,164,938
Finance lease obligations	13,442	15,833	5,409	10,424	-
<b>Total</b>	<b>1,362,347</b>	<b>1,912,245</b>	<b>231,237</b>	<b>508,961</b>	<b>1,172,047</b>
<i>Year ended</i>					
<i>31 December 2017</i>					
Bank borrowings	178,312	196,021	45,779	142,408	7,834
Bonds issued	985,465	1,349,693	79,637	711,931	558,125
Finance lease obligations	11,450	13,634	4,979	8,655	-
<b>Total</b>	<b>1,175,227</b>	<b>1,559,348</b>	<b>130,395</b>	<b>862,994</b>	<b>565,959</b>

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 2018 and 2017, the current ratio was as follows:

	2018	2017
Current assets	1,036,678	801,756
Current liabilities	319,323	152,383
	<b>3.25</b>	<b>5.26</b>

**Currency risk**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of US dollars, unless otherwise indicated)

## 32. RISK MANAGEMENT POLICIES (CONTINUED)

## Currency risk (continued)

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

	2018		2017	
	USD	EUR	USD	EUR
<b>ASSETS</b>				
Long-term bank deposits	-	3,387	-	2,524
Other non-current assets, net	15,980	-	11,617	-
Trade accounts receivable, net	26,072	5,434	22,266	2,311
Other current assets, net	3,601	-	110	-
Cash and cash equivalents	151,535	17,088	99,204	5,669
	<b>197,188</b>	<b>25,909</b>	<b>133,197</b>	<b>10,504</b>
<b>LIABILITIES</b>				
<i>Current liabilities</i>				
Trade accounts payable	2,536	2,543	2,776	3,083
Other current liabilities	31	6,916	24	5,929
Accrued interest	18,877	595	17,846	109
Short-term bank borrowings	110,771	21,944	12,121	15,176
Short-term finance lease obligations	2,290	2,066	3,142	887
	<b>134,505</b>	<b>34,064</b>	<b>35,909</b>	<b>25,184</b>
<i>Non-current liabilities</i>				
Long-term bank borrowings	56,702	49,081	121,576	17,241
Bonds issued	1,090,935	-	970,088	-
Long-term finance lease obligations	3,072	6,014	5,362	1,986
	<b>1,150,709</b>	<b>55,095</b>	<b>1,097,026</b>	<b>19,227</b>
	<b>1,285,214</b>	<b>89,159</b>	<b>1,132,935</b>	<b>44,411</b>

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

	Change in foreign currency exchange rates	Effect on profit before tax, gain/(loss)
<b>2018</b>		
Increase in USD exchange rate	10%	(108,803)
Increase in EUR exchange rate	10%	(6,325)
Decrease in USD exchange rate	5%	54,401
Decrease in EUR exchange rate	5%	3,164
<b>2017</b>		
Increase in USD exchange rate	10%	(99,974)
Increase in EUR exchange rate	10%	(3,391)
Decrease in USD exchange rate	5%	49,987
Decrease in EUR exchange rate	5%	1,695

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)***32. RISK MANAGEMENT POLICIES (CONTINUED)****Currency risk (continued)**

During the year ended 31 December 2018 the Ukrainian Hryvnia appreciated against the EUR and USD by 5.62% and 1.37% respectively (2017: depreciated against the EUR by 15.14% and 3.12% against the USD). As a result, during the year ended 31 December 2018 the Group recognised net foreign exchange gain in the amount of USD 11,638 thousand (2017: foreign exchange losses in the amount of USD 35,615 thousand) in the consolidated statement of profit or loss and other comprehensive income.

During the year ended 31 December 2018 USD 328 thousand (2017: USD 336 thousand) net foreign exchange gain resulting from the difference in NBU and Ukrainian interbank currency market exchange rates, was included in Other operating expenses, net.

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 2018 and 2017:

	2018	2017
Vegetable oil and related products	274,313	259,054
Chicken meat and related products	471,177	334,385
Grain	156,511	108,815
Other agricultural segment products	21,703	30,012
	<b>923,704</b>	<b>732,266</b>

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). For variable rate borrowings, interest is linked to LIBOR or EURIBOR.

The below table illustrates the Group's sensitivity to increases or decreases of interest rates by 5% (2017: 5%). The analysis was applied to interest bearing liabilities (bank borrowings, finance lease obligations and accounts payable under grain purchase financing arrangements) based on the assumption that the amount of liability outstanding as of the reporting date was outstanding for the whole year.

	Increase/ (decrease) of floating rate	Effect on profit before tax, gain/(loss), USD ' 000
<b>2018</b>		
LIBOR	5%	(8,642)
LIBOR	-5%	8,642
EURIBOR	5%	(3,955)
EURIBOR	-5%	3,955
<b>2017</b>		
LIBOR	5%	(7,110)
LIBOR	-5%	7,110
EURIBOR	5%	(1,765)
EURIBOR	-5%	1,765

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of US dollars, unless otherwise indicated)***32. RISK MANAGEMENT POLICIES (CONTINUED)****Commodity price and procurement risk**

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

**33. 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 2018 was USD 33,097 thousand and is recorded in the consolidated statement of profit or loss and other comprehensive income on an accrual basis (2017: USD 23,680 thousand). 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.

**34. EARNINGS PER SHARE**

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

	2018	2017
Profit for the year attributable to equity holders of the Parent	124,926	228,724
<b>Earnings used in calculation of earnings per share</b>	<b>124,926</b>	<b>228,724</b>
Weighted average number of shares outstanding	106,804,274	106,781,794
<b>Basic and diluted earnings per share (USD per share)</b>	<b>1.17</b>	<b>2.14</b>

The Group has neither potentially dilutive ordinary shares nor other dilutive instruments; therefore, the diluted earnings per share equal basic earnings per share.

**35. SUBSEQUENT EVENTS**

On 21 February 2019, the Group acquired 90.69% of the ordinary shares in Perutnina Ptuj d.d., a Slovenian based international meat-processing company and the most important and largest producer of poultry meat and poultry meat products in Southeast Europe. Perutnina Ptuj d.d. together with its subsidiaries has production capacity of 55,000 tonnes per annum of poultry meat and more than 35,000 tonnes per annum of value-added meat. The deal was financed by cash from operations and bank loan from ING NV in the amount of EUR 100 million. As part of the transaction, the Company has made a prepayment of EUR 20,000 thousand (USD 23,771 thousand) before the year end. The final consideration amount is subject to the completion of audited results of Perutnina Ptuj d.d. for the year ended 31 December 2018. The necessary measure of fair values of the identifiable assets acquired and the liabilities assumed as well as other calculations required for this business combination have not yet been finalized.

**36. AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were authorized for issue by the Board of Directors of MHP SE on 19 March 2019.



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# SHAREHOLDER INFORMATION

## **FINANCIAL CALENDAR**

MHP's financial calendar can be found here:  
<http://www.mhp.com.ua/en/investor-relations/calendar>.  
The calendar is updated to show relevant events and dates.

## **KEY CONTACTS & ADVISORS**

### **Company Registered Office**

16-18 Zinas Kanther Street, Ajia Triada, 3035 Limassol, Cyprus

### **Company Office**

EB 1, Nicolaides Sea View City Block AB, 3-7 Archbishop  
Makarios III Avenue, 6017 Larnaca, Cyprus

### **Director of Investor Relations**

Anastasiya Sobotyuk  
Email: [a.sobotyuk@mhp.com.ua](mailto:a.sobotyuk@mhp.com.ua)

## **Website**

Shareholders are encouraged to visit our website,  
[www.mhp.com.ua](http://www.mhp.com.ua), to obtain information on the Company  
including its history, reports, news and press information.

## **Auditor**

Deloitte Limited  
Maximos Plaza, Tower 1, 3rd Floor  
213 Archbishop Makarios III Avenue  
CY-3030 Limassol  
Cyprus

## **Registrar**

Citigroup Global Markets Deutschland AG  
Reuterweg 16  
60323 Frankfurt Germany

# GLOSSARY OF TERMS

<b>AGM</b>	Annual general meeting	<b>IFI</b>	International financial institution
<b>Broiler</b>	A young chicken raised for meat	<b>IFRS</b>	International Financial Reporting Standards
<b>CAPEX</b>	Capital expenditure	<b>IR</b>	Investor relations
<b>CEO</b>	Chief Executive Officer	<b>JV</b>	Joint venture
<b>CFO</b>	Chief Financial Officer	<b>Kg</b>	Kilograms
<b>CIS</b>	Commonwealth of Independent States	<b>KPIs</b>	Key performance indicators
<b>Company</b>	MHP SE	<b>LHS</b>	Left Hand Scale
<b>COSO</b>	Committee of Sponsoring Organisations	<b>LTM</b>	Last twelve months
<b>CO2</b>	Carbon Dioxide	<b>M&amp;A</b>	Mergers and acquisitions
<b>CO2e</b>	Carbon Dioxide Equivalent	<b>MENA</b>	Middle East and North Africa region
<b>CSR</b>	Corporate Social Responsibility	<b>MW</b>	Megawatt
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation	<b>NBU</b>	National Bank of Ukraine
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>NED</b>	Non-executive director
<b>EGM</b>	Extraordinary general meeting	<b>NGO</b>	Non-governmental organisation
<b>EU</b>	European Union	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>Fodder</b>	Food for livestock	<b>pps</b>	Percentage Points
<b>FX</b>	Foreign Exchange	<b>R&amp;D</b>	Research and development
<b>GCC</b>	Gulf Cooperation Council	<b>RHS</b>	Right Hand Scale
<b>GDP</b>	Gross Domestic Product	<b>SE</b>	Societas Europaea
<b>GDR</b>	Global depositary receipt	<b>SKU</b>	Stock keeping unit, or distinct type of item for sale
<b>GMO</b>	Genetically Modified Organisms	<b>SPOT</b>	A contract for immediate settlement on the spot date
<b>Greenfield</b>	Relating to previously undeveloped sites	<b>UAE</b>	United Arab Emirates
<b>GRI</b>	Global Reporting Initiative	<b>UAH</b>	Ukrainian Hryvnia
<b>Group</b>	MHP SE and its subsidiaries	<b>UK</b>	United Kingdom
<b>Grow-out</b>	The period during which the broilers are raised	<b>UNIC</b>	Ukrainian Network of Integrity and Compliance
<b>Ha</b>	Hectares	<b>US</b>	United States
<b>HR</b>	Human resources	<b>US\$ /USD</b>	United States Dollar
<b>IAS</b>	International Accounting Standards	<b>y/y</b>	Year-on-year
<b>IFC</b>	International Finance Corporation	<b>VAT</b>	Value-added tax



**MHP**

AGRO & INDUSTRIAL  
HOLDING