

IMPORTANT NOTICE

This document has been prepared solely in connection with the proposed offering (the “**Offering**”) of 10.25% Senior Notes due 2015 (the “**New Notes**”) of MHP S.A. (the “**Issuer**”) and the offer to exchange (the “**Exchange Offer**”) existing notes of the Issuer for 10.25% Senior Notes due 2015 (the “**Exchange Notes**”) and together with the New Notes, the “**Notes**”).

Copies of the Offering Memorandum will, following publication, be available on the website of the regulatory News Service operated by the London Stock Exchange plc at www.londonstockexchange.com/en-gb/pricesnews/marketnews and from the offices of Deutsche Bank AG in London as paying agent.

THE OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“**QIBS**”) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”) PROVIDED BY RULE 144A OR (2) OUTSIDE OF THE UNITED STATES IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs (within the meaning of Rule 144A under the Securities Act) or (2) addressees outside the United States. This Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) you and the electronic mail address that you gave us and to which this e-mail has been delivered are not located in the United States and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Memorandum to any other person.

The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriter is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes other than in circumstances in which Section 21(1) of the FSMA does not apply.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Morgan Stanley & Co. International plc, UBS Limited, ING Bank N.V., London branch, or Renaissance Securities (Cyprus) Limited (collectively, the “**Initial Purchasers**”) or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.



MHP S.A.

(incorporated in Luxembourg as a company with limited liability)

10.25% Senior Notes due 2015

Guaranteed on a senior basis by certain of MHP S.A.'s Ukrainian subsidiaries

MHP S.A. (the “**Issuer**”) is offering (the “**Offering**”) U.S.\$330,000,000 aggregate principal amount of its 10.25% Senior Notes due 2015 (the “**New Notes**”), to raise cash proceeds and is offering to exchange (the “**Exchange Offer**”) up to U.S.\$266,000,000 aggregate principal amount of its 10.25% Senior Notes due 2015 (the “**Exchange Notes**” and together with the New Notes, the “**Notes**”) for the Issuer’s existing U.S.\$250,000,000 10.25% Senior Notes due 2011 (the “**Existing Notes**”). The aggregate principal amount of Exchange Notes issued will be notified through the publication of a notice on the regulatory news service of the London Stock Exchange.

The Notes will bear interest at a rate of 10.25% per annum. Interest will be payable on 29 April and 29 October of each year, beginning on 29 October 2010. The Notes will mature on 29 April 2015. At any time prior to 29 April 2015, the Issuer may redeem the Notes in whole or in part at a redemption price equal to 100% of the principal amount of the Notes redeemed plus a “make whole” premium. In addition, at any time prior to 29 April 2013, the Issuer may redeem up to 35% of the Notes with the net proceeds from one or more equity offerings.

The Notes will be senior obligations of the Issuer and (a) will be secured by first-ranking assignments of (i) the Issuer’s rights under an intercompany loan of the gross proceeds of the Offering of the New Notes to Eleдем Investments Limited (“**Eleдем**”) and (ii) Eleдем’s rights under an intercompany loan of the gross proceeds of the Offering of the New Notes to the Guarantors (as defined below), acting as co-obligors and (b) except as set out herein, will be secured by a first-ranking assignment of the Issuer’s and Eleдем’s rights under intercompany loans made by each of them of the gross proceeds of the Existing Notes. To the extent that Existing Notes remain outstanding following the Exchange Offer (the “**Remaining Existing Notes**”), they also will have a first ranking claim over such security. The Notes will rank equally in right of payment to all existing and future senior indebtedness of the Issuer (including any Remaining Existing Notes) and senior in right of payment to all existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes. The Notes will be jointly and severally guaranteed (each, a “**Guarantee**”) on a senior unsecured basis by certain of the Issuer’s Ukrainian subsidiaries (each, a “**Guarantor**”). Each Guarantee will rank equally in right of payment to all existing and future senior unsecured indebtedness (including any Remaining Existing Notes) of such Guarantor.

This Offering Memorandum includes information on the terms of the Notes and the Guarantees, including redemption and repurchase prices, covenants and transfer restrictions.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended, (the “**FSMA**”) (in such capacity, the “**UKLA**”) for the Notes to be admitted to the Official List of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading on the London Stock Exchange’s regulated market (the “**Regulated Market**”). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC.

This Offering Memorandum comprises a prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”) and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes pursuant to the Offering and the Exchange Offer.

The Notes will be offered and sold in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof.

Investing in the Notes involves a high degree of risk. Please see the section entitled “Risk Factors” beginning on page 16.

Neither the Notes nor the Guarantees thereof have been, or will be, registered under the U.S. federal securities laws or the securities laws of any other jurisdiction. The Notes and the Guarantees are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the United States Securities Act of 1933 (the “**U.S. Securities Act**”), and in transactions outside the United States in accordance with Regulation S under the U.S. Securities Act. Please see the sections entitled “Notice to Investors” and “Plan of Distribution” for additional information about eligible offerees and transfer restrictions.

Price: 101.452% plus accrued interest from the issue date.

Bookrunners

Morgan Stanley

UBS Investment Bank

ING

Co-Manager

Renaissance Capital

The date of this Offering Memorandum is 23 April 2010.

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the Issuer's knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

The contents of the websites of the Issuer and its subsidiaries do not form any part of this Offering Memorandum.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Notes other than as contained in this Offering Memorandum, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of Morgan Stanley & Co. International plc, UBS Limited, ING Bank N.V., London branch, or Renaissance Securities (Cyprus) Limited (each a "**Manager**" and collectively, the "**Managers**"). This Offering Memorandum is being furnished by the Issuer solely for the purpose of enabling a prospective investor to consider the purchase of the Notes.

No representation or warranty, express or implied, is made by any Manager or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Offering Memorandum, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by any Manager as to the past or the future. Any reproduction or distribution of this Offering Memorandum, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes is prohibited, except to the extent that such information is otherwise publicly available. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

This Offering Memorandum does not constitute an offer to sell, or a solicitation by or on behalf of the Issuer or any Manager to any person to subscribe for or purchase any of the Notes in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Offering Memorandum and the offering or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Offering Memorandum may come are required by the Issuer and the Managers to inform themselves about and to observe such restrictions. No action has been taken by the Issuer or the Managers that would permit, otherwise than under the Offering, an offer of the Notes, or possession or distribution of this Offering Memorandum or any other offering material or application form relating to the Notes in any jurisdiction where action for that purpose is required. This Offering Memorandum may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Notes is set forth under "Plan of Distribution".

In their capacity as joint book running lead managers to the Issuer in connection with the Offering and dealer managers in connection with the Exchange Offer, the Managers are acting exclusively for the Issuer and no one else in connection with the Offering or the Exchange Offer and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Offering or the Exchange Offer and will not be responsible to any other person for providing the protection afforded to their clients or for providing advice in relation to the Offering or the Exchange Offer or any matter referred to in this document.

In connection with the Offering, Morgan Stanley & Co. International plc (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105% of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

In connection with the Offering and the Exchange Offer, the Managers and any of their affiliates acting as an investor for its or their own accounts may subscribe for and/or acquire the Notes and the Existing Notes and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their

own accounts in the Notes and the Existing Notes, any other securities of the Issuer or other related investments in connection with the Offering, the Exchange Offer or otherwise. Accordingly, references in this Offering Memorandum to the Notes being offered, subscribed, acquired or otherwise dealt with should be read as including any offer to, or subscription, acquisition or dealing by, the Managers and any of its affiliates acting as an investor for its or their own accounts. The Managers do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the terms of this Offering Memorandum, including the risks involved.

The contents of this Offering Memorandum should not be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Memorandum may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the FSMA does not apply. The Notes may not be offered or sold to any person in the United Kingdom, other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom.

Each Manager severally represents, warrants and agrees that it has not and will not, offer or sell the Notes to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any offering circular, prospectus, form of application, advertisement, communication or other material may be distributed, or otherwise made available in, or from or published in, Luxembourg, except in circumstances which do not require the publication by the Issuer of a prospectus pursuant to article 5 of the Luxembourg act dated 10 July 2005 and do not constitute an offer of securities to the public pursuant to the provisions of the Luxembourg act dated 10 July 2005 relating to prospectuses for securities.

Under Ukrainian law, the Notes are securities of a foreign issuer. The Notes are not eligible for initial offering and public circulation in Ukraine. Neither the issue of the Notes nor a prospectus in respect of the Notes has been, or is intended to be, registered with the State Commission for Securities and Stock Markets of Ukraine. The information provided in this document is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in Ukraine.

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes “forward-looking statements”, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words “targets”, “believes”, “expects”, “aims”, “intends”, “will”, “may”,

“anticipates”, “would”, “could” or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Issuer’s control that could cause the actual results, performance or achievements of the Issuer to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer’s present and future business strategies and the environment in which the Issuer will operate in the future. Amongst the important factors that could cause the Issuer’s actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are included those in “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Offering Memorandum. These forward-looking statements speak only as at the date of this Offering Memorandum. The Issuer expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

Targets and estimates for increased production are based on MHP’s business plan and relate solely to targeted or estimated production capacity. Sales levels, revenues and other data cannot be extrapolated from production capacity numbers as they will be entirely dependent on demand for MHP’s products and prices in addition to any other factors including taxes, competition and costs of production. Production capacity increases are completely dependent upon completion of various construction projects which MHP has assumed can be made at the times contemplated by the business plan and at the budgeted costs and that no extraordinary events will occur which might delay construction and/or commencement of production.

AVAILABLE INFORMATION

For so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the “**U.S. Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the U.S. Securities Act (or any successor provision thereto).

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of Luxembourg. Certain persons referred to herein are residents of Ukraine, and certain entities referred to herein are organised under the laws of Ukraine, Cyprus or Luxembourg. Except for Mr. John Grant, a non-executive member of the Issuer’s board of directors (the “**Board of Directors**”), who is a resident of the United Kingdom, all or a substantial portion of the assets of such persons, entities and the Issuer are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or the United Kingdom or to enforce against them or the Issuer judgments obtained in United States courts predicated upon the civil liability provisions of U.S. securities laws.

A judgment obtained against the Issuer in the courts of a member state of the European Union (each a “**Member State**”) in any suit, action or proceedings with respect to the Notes would be enforced by the Luxembourg courts subject to the applicable *exequatur* procedure of the Council Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgment in civil and commercial matters, as amended (the “**Council Regulation 44/2001**”) and provided the recognition of the judgment may not be refused on the grounds specified in articles 34 and 35 of the Council Regulation 44/2001.

A judgment obtained against the Issuer with respect to the Notes in a court other than the court of a Member State or a contracting state to a multilateral or bilateral treaty with Luxembourg, such as, for instance, a court of competent jurisdiction in the United States, in any suit, action or proceedings with respect to the Notes would be enforced by a Luxembourg court subject to compliance with the

enforcement procedures set out in article 678 et seq. of the Luxembourg *Nouveau Code de Procédure Civile* being:

- the U.S. Court has applied the substantive law as designated by the Luxembourg conflict of laws rules;
- the U.S. Court has acted in accordance with its own procedural laws;
- the U.S. Court order or judgment must not have been rendered subsequent to an evasion of Luxembourg law (“*fraude à la loi*”);
- the U.S. Court awarding the judgment has jurisdiction to adjudicate the respective matter under its applicable laws, and such jurisdiction is recognised by Luxembourg private international and local law;
- the judgment is enforceable in the jurisdictions where the decision is rendered;
- the judgment was granted following proceedings where the counterparty had the opportunity to appear, was granted the necessary time to prepare its case, and if it appeared, could present a defense; and
- the considerations of the foreign order as well as the judgment do not contravene international public policy as understood under the laws of Luxembourg or has been given in proceedings of a criminal nature.

If an original action is brought in Luxembourg, Luxembourg courts may refuse to apply the designated law if its application contravenes Luxembourg’s international public policy. In an action brought in Luxembourg on the basis, for instance, of U.S. federal or state securities laws, Luxembourg courts may not have the requisite power to grant the remedies sought.

In Cyprus, enforcement of judgments that have been given by, and are enforceable by, the courts of a foreign country with which Cyprus has entered into a bilateral treaty or a convention for reciprocal enforcement of judgments may be conditional upon obtaining an enforcement order in Cyprus. Judgments given in an European Union state and enforceable in that state shall be enforceable in Cyprus on application to the Cypriot court for a declaration of enforceability (Council Regulation 44/2001). If there is no such bilateral treaty or convention entered between Cyprus and the foreign country and the latter is not a Member State, the judgment given by the court of the foreign country may only be enforced in Cyprus by bringing an action in Cyprus with respect to such judgment. However, enforcement in Cyprus could be refused if the judgment is liable to impeachment for fraud or its enforcement would be contrary to public policy.

Neither the United States nor Cyprus currently has a bilateral or other treaty with the other providing for the reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters. A final and conclusive judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be automatically recognised or enforceable in Cyprus. In order to obtain a judgment which is enforceable in Cyprus, the party in whose favour a final and conclusive judgment of a U.S. court has been rendered must file, under principles of Common Law, its claim as a fresh action with a court of competent jurisdiction of Cyprus to be adjudicated. Under current practice, this party may submit, to the Cypriot court, under the fresh action, the final judgment rendered by the U.S. court. If and to the extent that the Cypriot court finds the jurisdiction of the U.S. court to have been based on internationally acceptable grounds and that legal procedures comparable with Cypriot concepts of due process have been followed, the Cypriot court will, in principle, grant the same judgment as the judgment of the U.S. court, unless such judgment would contravene Cypriot principles of public order. Subject to the foregoing and service of process in accordance with applicable treaties, investors may be able to enforce in Cyprus judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that those judgments will be enforceable. In addition, even if a Cypriot court has jurisdiction, it is uncertain whether such court will impose civil liability in an original action commenced in Cyprus and predicated solely upon U.S. federal securities laws.

Judgments rendered by a court in any jurisdiction outside Ukraine will be recognised and/or enforced by courts in Ukraine only if an international treaty providing for the recognition and enforcement of judgments in civil cases that was ratified by the Ukrainian Parliament exists between Ukraine and the relevant country. If there is such a treaty, the Ukrainian courts may nonetheless refuse to recognise and

enforce a foreign judgment on the grounds provided in the relevant treaty and in Ukrainian legislation in effect on the date on which such recognition or enforcement are sought. Furthermore, Ukrainian legislation may be changed by way of, amongst other things, adding further grounds allowing refusal of recognition and/or enforcement of foreign judgments in Ukraine. There is no such treaty in effect between Ukraine, on the one hand, and any of the United States, the United Kingdom or Luxembourg, on the other.

In the absence of such international treaty providing for the recognition and enforcement of judgments in civil cases, the Ukrainian courts may only recognise and enforce a foreign court judgment on the basis of the principle of reciprocity. Ukrainian legislation provides that unless proven otherwise, the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian legislation does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice of these provisions of Ukrainian legislation. Accordingly, there can be no assurance that the Ukrainian courts will recognise or enforce a judgment rendered by the United States, the United Kingdom, or Luxembourg courts on the basis of the principle of reciprocity. Furthermore, the Ukrainian courts might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in Ukrainian legislation in effect on the date on which such recognition or enforcement is sought.

The United States, United Kingdom, Luxembourg, Cyprus and Ukraine are, however, parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Arbitral awards in relation to disputes rendered in the United States or United Kingdom may be enforced in Luxembourg, Cyprus and Ukraine, subject to the terms of the New York Convention and compliance with the applicable rules of local law. The courts of Cyprus will recognise as valid any arbitral award and enforce any final, conclusive and enforceable arbitral award obtained by arbitration in accordance with the relevant arbitration provisions of any agreement provided any such enforcement is in accordance with the provisions of the New York Convention. Luxembourg and Ukraine are both parties to the New York Convention and, consequently, an arbitral award from an arbitral tribunal in the United States or United Kingdom should generally be recognised and enforced in Luxembourg or Ukraine, as the case may be, on the basis of the rules of the New York Convention subject to the qualifications set out therein and compliance with applicable Ukrainian or, as the case may be, Luxembourg legislation (including that all the requirements of the enforcement procedure provided for in the Luxembourg *Nouveau Code de Procédure Civile* have been fulfilled and satisfied).

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Certain Defined Terms in this Offering Memorandum:

The “**Issuer**” means MHP S.A.;

“**JSC MHP**” means Open Joint Stock Company “Myronivsky Hliboproduct” or, as the context requires, its legal predecessors;

“**MHP**” or the “**Group**” means the Issuer together with its subsidiaries and the other companies consolidated in its consolidated IFRS financial statements at the relevant time; and

“**Management**” means the Board of Directors of the Issuer.

“**Agrofort**” means CJSC Agrofort; “**Myronivka**” means CJSC Myronivska Ptahofabryka; “**Crimea Fruit**” means CJSC Crimea Fruit Company; “**Druzhba**” means ALLC Druzhba Narodiv; “**Druzhba Nova**” means CJSC Druzhba Narodiv Nova; “**Katerynopilsky Elevator**” means LLC Katerynopilsky Elevator; “**Kyivska**” means LLC Agrofirma Kyivska; “**Lypivka**” means LLC Zernoproduct-Lypivka; “**MFC**” means OJSC Myronivsky Plant for Manufacturing of Feeds and Groats (also known as OJSC Myronivsky Plant for Manufacturing of Feeds and Cereals or JSC Myronivskiy Zavod po Vygotovlennyyu Krup i Kombikormiv); “**MMPP**” means Myronivsky Meat Processing Plant “LEHKO”; “**Oril Leader**” means CJSC with foreign investments Oril-Leader; “**Peremoga**” means SE Peremoga Nova; “**RHL**” means Raftan Holding Limited; “**Shahtarska**” means SE Ptahofabryka Shahtarska Nova; “**Snyatynska**” means LLC Ptahofabryka Snyatynska Nova; “**Starynska**” means ALLC Starynska Ptahofabryka; “**TKZ**” means LLC Tavriysky Kombikormovy Zavod; “**Ukrainian Bacon**” means CJSC Ukrainian Bacon, “**Urozhay**” means CJSC Scientific-Production Firm Urozhay; “**Zavod ZBV**” means LLC Cherkasky Zavod ZBV; “**Zernoproduct**” means CJSC Zernoproduct MHP; and “**ZZG**” means LLC Zolotoniske Zvirogospodarstvo.

All references to “**U.S.**” and “**United States**” are to the United States of America, all references to “**U.K.**” and “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland and all references to the “**EU**” are to the European Union and its member states as of the date of this Offering Memorandum. All references to the “**CIS**” are to the following countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan.

All references to “**UAH**” and “**hryvnia**” are to the currency of Ukraine, all references to “**€**”, “**EUR**” and “**Euro**” are to the currency of the participating Member States in the third stage of the Economic and Monetary Union of the Treaty Establishing the European Community, and all references to “**U.S.\$**”, “**U.S. dollar**” and “**dollar**” are to the currency of the United States of America.

Presentation of Financial Information

The audited consolidated financial statements of MHP as at and for the years ended 31 December 2007, 2008 and 2009 (together, the “**Audited Consolidated Financial Statements**”) included in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“**IFRS**”). MHP’s Audited Consolidated Financial Statements are presented in U.S. dollars, which differs from the functional currency of the Group, which is Ukrainian hryvnia. Accordingly, there can be significant variances due to currency fluctuations when comparing periods, especially when there is a material change in the exchange rate of the U.S. dollar to the hryvnia. Due to the significant change in the U.S. dollar/hryvnia exchange rate during the financial years 2007, 2008 and 2009, this Offering Memorandum presents certain results for these periods in both U.S. dollars and hryvnia. The hryvnia amounts have been derived from the following sources: (a) certain numbers are derived from MHP’s IFRS consolidation accounting system, presented in hryvnia, which are translated into the numbers appearing in the Audited Consolidated Financial Statements pursuant to IAS 21, (b) certain numbers not derived from MHP’s IFRS consolidation accounting system are derived from the underlying accounting records of MHP and (c) all other information (other than numbers derived from MHP’s IFRS consolidation accounting system or the underlying accounting records of MHP) has been translated into U.S. dollars at a conversion rate of UAH 7.93 to U.S.\$1.00, which was the rate published by the National Bank of Ukraine (“**NBU**”) on 31 March 2010. Such hryvnia amounts have not been derived from audited financial statements. No representation is made that the hryvnia or dollar amounts referred to herein could have been or could be converted into hryvnia or dollars, as the case may

be, at these rates, at any other particular rate or at all. See “Exchange Rate Information”. For a discussion of MHP’s functional currency and its presentation currency, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Functional and Presentation Currency.” This translation methodology gives rise to a different result than if the income and expenses statements had been translated at a single current exchange rate, as in a convenience translation.

As a result of the methodology described above percentages relating to U.S. dollar numbers are not necessarily the same as the percentages relating to the equivalent hryvnia numbers included in this Offering Memorandum.

The percentages related to financial indicators and changes therein included in this Offering Memorandum are derived from U.S. dollar amounts, as MHP’s financial statements are presented in U.S. dollars, whilst as the discussion in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” is primarily based on hryvnia amounts and presents U.S. dollar amounts in certain cases, the percentages included herein are generally presented based on both hryvnia and U.S. dollar amounts.

The Issuer has included certain measures in this Offering Memorandum that are not measures of performance under IFRS, including EBITDA from continuing operations and adjusted EBITDA from continuing operations (“**Adjusted EBITDA**”) both at a consolidated and at a segment level.

The Issuer defines EBITDA from continuing operations as profit or loss for the year from continuing operations before net finance costs, income taxes, depreciation and amortisation. Adjusted EBITDA from continuing operations is derived by adjusting EBITDA from continuing operations for foreign exchange gains and losses, loss on impairment of property, plant and equipment, gain realised from acquisitions and changes in minority interest in subsidiaries, other expenses and other income. The Issuer has made these adjustments to EBITDA from continuing operations as Management believes that these line items are not operational in nature and do not reflect the true nature of the business on a continuing basis and/or these line items are either non-recurring or unusual in nature. The Issuer has made these adjustments to present a clearer view of the performance of its underlying business operations and generate a metric that Management believes will give greater comparability over time. Management uses Adjusted EBITDA from continuing operations in MHP’s business operations to, amongst other things, assess MHP’s operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present similar measures when reporting their results.

EBITDA from continuing operations and Adjusted EBITDA from continuing operations do not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered by prospective investors to be an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund our future cash requirements. EBITDA from continuing operations and Adjusted EBITDA from continuing operations are not measures of profitability because, in the case of EBITDA from continuing operations, it does not include costs and expenses for depreciation and amortisation, net finance costs and income taxes and, in the case of Adjusted EBITDA from continuing operations, it does not include foreign exchange gains and losses (net), other expenses and other income, gain realised from acquisitions and changes in minority interest in subsidiaries (net) and loss on impairment of property, plant and equipment. Also, because EBITDA from continuing operations and Adjusted EBITDA from continuing operations are not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

The financial information included in this Offering Memorandum is not intended to comply with SEC reporting requirements. Compliance with such requirements would require modification or exclusion of certain financial measures, including EBITDA from continuing operations and Adjusted EBITDA from continuing operations.

All figures included in this Offering Memorandum and set out in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section are discussed on the basis of continuing operations, save where expressly stated otherwise. References to “**operating profit before impairment**” are to the line item in the Audited Consolidated Financial Statements “operating profit before loss on impairment of property, plant and equipment”.

Market and Industry Data

MHP operates in an industry in which it is difficult to obtain precise industry and market information. The Issuer has obtained certain market data used in this Offering Memorandum, including, without limitation, information under the captions “Overview”, “Industry Overview” and “Business” from a market research report issued on 7 April 2010 (the “**GfK Report**”), prepared by GfK-USM (“**GfK**”), an independent market research company, and commissioned by MHP. In addition, certain data under the captions “Overview” and “Business” is based on brand awareness research undertaken by GfK in February 2010. Management believes that the GfK Report and the results of GfK’s brand awareness research are reliable.

Certain information in this Offering Memorandum, including, without limitation, information under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Industry Overview” has been derived from publicly available information, including industry publications and official data published by certain government and international agencies, including the State Committee on Statistics of Ukraine (“**SCSU**”), the Ministry of Agrarian Policy of Ukraine (“**Agrarian Ministry**”), the Food and Agricultural Policy Research Institute (“**FAPRI**”), the Meat Union of Russia (“**MUR**”), the Russian Poultry Union (“**Rospakhsoiuz**”), the Institute of Nutrition of the Russian Academy of Medical Sciences (“**INRAMS**”), Euromonitor, the Organisation for Economic Co-operation and Development (“**OECD**”), Communication and Information Resource Centre Administration of the European Commission (“**CIRCA**”), the Foreign Agricultural Service, the United States Department of Agriculture (“**FAS USDA**”), the United Nations Food and Agricultural Organisation, the British Bankers’ Association and the European Banking Federation. The Issuer has relied on the accuracy of such information without carrying out an independent verification thereof. See “Risk Factors—Risks Relating to Ukraine—Official economic data and third party information may not be reliable”.

Where information in this Offering Memorandum has been sourced from a third party, this information has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In this Offering Memorandum, references to weight of chicken products are, unless otherwise stated, to the adjusted weight. References to “**adjusted weight**” of chicken products are to the weight of chicken products adjusted to reflect the difference in price between the chicken meat price and the price of various chicken by-products. References to “**agricultural year**” are to a year lasting from July to June in the following year in the case of wheat, and a year lasting from October to September in the following year in the case of coarse grains. References to “**market share**” are, unless otherwise stated, to market share by production volume.

Certain figures included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

TABLE OF CONTENTS

OVERVIEW	1
RISK FACTORS	16
USE OF PROCEEDS	54
EXCHANGE OFFER	55
EXCHANGE RATE INFORMATION	56
CAPITALISATION	58
SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION	59
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	62
INDUSTRY OVERVIEW	112
BUSINESS	127
CERTAIN REGULATORY MATTERS	159
DIRECTORS, CORPORATE GOVERNANCE AND MANAGEMENT	166
SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	174
DESCRIPTION OF OTHER INDEBTEDNESS	178
DESCRIPTION OF NOTES	181
BOOK ENTRY, DELIVERY AND FORM	223
TAXATION	228
NOTICE TO INVESTORS	236
PLAN OF DISTRIBUTION	239
LEGAL MATTERS	242
INDEPENDENT AUDITORS	243
GENERAL INFORMATION	244
INDEX TO FINANCIAL STATEMENTS	F-1

OVERVIEW

This overview must be read as an introduction to this Offering Memorandum and any decision to invest in the Notes should be based on consideration of this Offering Memorandum as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area, no civil liability will attach to responsible persons in any such Member State in respect of this overview, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with other parts of this Offering Memorandum. Where a claim relating to the information contained in this Offering Memorandum is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Offering Memorandum before the legal proceedings are initiated.

Overview

MHP is one of the leading agro-industrial companies in Ukraine, focusing on the production of chicken meat and, to an increasing extent, the cultivation of various grains. MHP is the leading poultry company in Ukraine, accounting for approximately 43% of all chicken meat industrially produced in Ukraine in 2009, according to SCSU. MHP also has an important and expanding grain operation with what Management believes to be one of the largest agricultural land portfolios in Ukraine. In aggregate, MHP leases approximately 180,000 hectares of land for its operations, of which approximately 150,000 hectares are used in the grain growing segment for grain production, approximately 27,000 hectares are used in the other agricultural segment primarily for fruit orchards, as pasture for cattle and pigs and to grow grain for fodder for cattle and pigs, and approximately 3,000 hectares are used by the poultry and related operations segment. In addition, MHP produces and sells sunflower oil as a by-product of its fodder production, as well as sausages, cooked meats, convenience food products, goose meat, foie gras, beef and fruit.

In 2009, MHP had revenues of UAH 5,552.2 million (U.S.\$711.0 million) and profit from continuing operations of UAH 1,245.1 million (U.S.\$160.0 million). Chicken meat and grain sales accounted for approximately 62% and 6%, respectively, of MHP's revenues in 2009. Although sunflower oil is a by-product, its sales are significant and account for approximately 14% of MHP's revenues in 2009. MHP has grown significantly in recent years. As at 31 December 2009, MHP's total assets were UAH 9,086.2 million (U.S.\$1,137.9 million) as compared to assets of UAH 7,119.4 million (U.S.\$924.6 million) as at 31 December 2008.

MHP's facilities are amongst the most technologically advanced in Ukraine:

- *Chicken production and distribution facilities.* MHP operates vertically integrated chicken production facilities comprising four chicken farms, which produced approximately 285,000 tonnes of chicken meat in 2009 as compared to approximately 225,000 tonnes in 2008. The chicken farms are serviced by two breeder farms (at which hatching eggs are produced), three fodder mills, 11 distribution centres and three sales operations. Management believes this vertical integration allows MHP to reduce production and transportation costs, better coordinate and control various stages of production, reduce delivery times for its end products and improve the overall quality of its products. In addition, each of MHP's chickens is hatched, grownout and processed within the same chicken farm, providing a significant biosecurity advantage over other industrial producers which acquire chicks or chickens from third parties for growout and processing. In line with industry practice, MHP acquires its breeder flocks from a specialist producer in Germany.

In 2004, MHP commenced the construction of the Myronivka chicken farm in the Cherkasy region. MHP completed the first phase of the Myronivka project in October 2007, resulting in an annual production capacity of 100,000 tonnes of chicken meat at that farm. After the completion of the second phase of the Myronivka project in June 2009, the Myronivka chicken farm became fully operational with an annual production capacity of approximately 200,000 tonnes of chicken meat at that farm. The completion of the Myronivka project has significantly expanded MHP's production capacity in chicken meat, and during 2009 MHP increased its monthly chicken meat production and sales volume by almost 47%, compared to 2008. Management believes that the Myronivka chicken farm is currently the largest chicken meat production facility by volume in Ukraine and one of the largest chicken meat production facilities in Europe. MHP's annual production capacity of chicken meat is now 330,000 tonnes.

In addition to its three other chicken farms in Ukraine, MHP also produces convenience food products at its MMPP facility, which is one of the largest and most technologically advanced convenience food facilities in Ukraine.

MHP continues to seek expansion opportunities and is considering the construction of another chicken farm in the Vinnitsya region. If MHP decides to proceed, construction of the first two phases is expected to commence in late 2010 with the first phase beginning production in 2013 and both phases becoming fully operational in 2015 respectively. The third and fourth construction phases are optional, and the decision to continue the construction would depend on demand and pricing. If all four phases are completed, this new project is expected to be approximately twice as big as the Myronivka chicken farm, with each phase having an annual production capacity of 100,000 tonnes of chicken meat. As a result of its expansion programme, MHP expects to achieve further economies of scale, decrease its per unit operating costs and acquire greater market share in Ukraine. MHP is also considering the possibility, in the longer term, of exporting to various EU countries should it receive the relevant permits to do so.

- *Grain growing facilities.* MHP currently leases approximately 150,000 hectares of land at its five principal grain growing facilities where it cultivates corn and sunflowers in support of its chicken operations and, to an increasing extent, other grains such as wheat and rape for sale to third parties. In 2009, MHP produced approximately 960,480 tonnes of grain with yields per hectare significantly higher than Ukraine's average. Since the harvest of 2008, MHP has been self-sufficient in corn, which is its main fodder ingredient. MHP intends to expand its grain growing capacities in the medium to long term up to a total of 300,000 hectares through acquisitions of rights to additional land plots in Ukraine, concentrating on fertile "black soil" areas in proximity to its existing facilities.
- *Other agricultural facilities.* MHP operates facilities for the production of sausages, cooked meats, goose meat, beef, foie gras and fruit. These facilities utilise approximately 27,000 hectares of leased land. This land is used by MHP to farm pigs and cattle and to grow various fodder crops, including corn, wheat and barley. The recent acquisition of the Ukrainian Bacon facility in July 2008 enabled MHP to meet the increased demand in Ukraine for sausages and cooked meat products leading to the increase in volumes of such products sold by 59% as compared to 2008. Based on research conducted by GfK, MHP is the leader in a highly fragmented meat-processing market in Ukraine, accounting for approximately 10% of all sausages and cooked meats produced in Ukraine in 2009.

MHP distributes its chicken products through its own branded franchise points of sale and on a wholesale basis directly to retailers, including supermarkets and hypermarkets, foodservice businesses and industrial producers. In 2009, MHP sold approximately 40% of its chicken and other meats through "Nasha Ryaba" branded franchise outlets, 40% to supermarkets and other retail chains and 20% to other retailers, including traditional independent shops and convenience stores. MHP currently exports its frozen chicken and convenience food products to the CIS, primarily Kazakhstan and Georgia, which together accounted for approximately 4% of its 2009 volumes of poultry and related products sold. MHP sells most of its chicken products under the "Nasha Ryaba" brand. MHP also sells convenience food products under the "Lehko!" and "Toropysky" brands, premium beef under the "Certified Angus" brand, foie gras under the "Foie Gras" brand and sausages and cooked meat products under the "STOV Druzhba Narodiv", "Baschinsky" and "Europroduct" brands. MHP's other meat products are sold principally to retailers and supermarkets. MHP sells all of the rapeseed it produces and approximately 50% of the wheat it produces to Ukraine-based traders for export using forward-starting contracts denominated in U.S. dollars, with the remaining portion of wheat sold through the spot markets in Ukraine and insignificant amounts used for fodder production.

Competitive Strengths

Management believes that MHP benefits from the following competitive strengths:

- *Leading market position in a large and growing market for poultry products*
- *Strong brands*
- *Vertically integrated operations which reduce costs and enhance quality control*
- *Expanding grain operations allow MHP to benefit from increases in grain prices*
- *Diversified sales structure*
- *Developed distribution and sales network*
- *High biosecurity standards*
- *Modern technology*
- *Focus on consumer-driven innovation*
- *Experienced management team and industry expertise*

Strategy

MHP's overall objective is to maintain and expand its position as one of the leading agro-industrial companies in Ukraine, while strengthening its position as the leading Ukrainian poultry production company and developing its grain cultivation operations. Key elements of its strategy include:

- *Expanding chicken production capacity*
- *Expanding capacity for grain production*
- *Strengthening vertical integration*
- *Continuing to develop MHP's distribution network and customer base*
- *Continuing agro-industrial diversification*

Risk Factors

An investment in the Notes is subject to risks relating to MHP's business and industry, economic, political and social risks associated with Ukraine and risks arising from the nature of Notes and the markets on which they are expected to be traded, including the risks associated with the following matters:

- *As MHP's principal activity involves producing chicken products, its business and financial results are very dependent on demand and price levels for chicken products in Ukraine*
- *Fluctuations in prices of grains and related products may materially affect MHP's results of operations*
- *State support from which MHP currently benefits is significant and could be discontinued*
- *As a producer of agricultural products MHP currently benefits from tax exemptions which could be discontinued*
- *MHP is exposed to currency exchange rate risk*
- *MHP must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put MHP into default*
- *MHP has been and will continue to be controlled by a majority shareholder and depends on his services as Chief Executive Officer*
- *MHP's accounting and reporting systems, accounting personnel and its internal controls and procedures do not have a long history of preparing IFRS financial statements*
- *Failure of IT systems could materially affect MHP's business*

- *Competition in the meat industry could adversely affect MHP's business*
- *Poor growing conditions may adversely affect MHP's grain production*
- *Insufficient access to quality seeds may adversely affect MHP's grain production*
- *An increase in MHP's production costs, including energy and labour costs, could materially and adversely affect its profitability*
- *If MHP needs to raise additional capital or refinance its debt, its business could be harmed if it were unable to do so on acceptable terms*
- *Failure to generate or raise sufficient capital may hamper MHP's development strategy*
- *Outbreaks of bird flu and other livestock diseases could have a material adverse effect on MHP's business*
- *Any interruption to supplies of breeding flocks could have a material adverse effect on MHP's business*
- *If MHP's products become contaminated, it may be subject to product liability claims and product recalls*
- *Seasonality in the demand for chicken products affects the market price for chicken products and MHP's sales and earnings*
- *MHP is dependent on qualified personnel*
- *Any failure to protect its brand names and other intellectual property could adversely affect MHP's business*
- *Increased costs for or disruptions in the supply of gas and fuel could adversely affect MHP's business and financial results*
- *MHP may be unable to identify suitable franchising opportunities or successfully manage its franchisee network*
- *MHP's reliance on independent retailers could adversely affect its business, results of operations, financial condition and prospects*
- *MHP could be subject to liabilities if it is determined that past actions violated Ukrainian corporate laws or regulations*
- *MHP may be subject to penalties imposed by the Antimonopoly Committee of Ukraine*
- *MHP's operations may be limited by antitrust regulations*
- *MHP may be subject to claims and liabilities under environmental, health, safety, sanitary, veterinary and other laws and regulations which could be significant*
- *MHP's current working practices could be affected by new legislation on animal protection*
- *MHP's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation*
- *MHP's business could be adversely affected if detrimental price controls are introduced for MHP's key products*
- *MHP's insurance coverage may be inadequate*
- *MHP's intragroup transactions and other related party transactions are subject to Ukrainian transfer pricing regulations*
- *MHP may be limited in its ability to obtain full ownership rights to land*
- *MHP has multiple leases, its rights to its land plots may be challenged, and MHP may not be able to renew its lease agreements*

- *The payments under MHP's land lease agreements may increase*
- *MHP is exposed to operational risks*
- *The Issuer may become tax resident in a jurisdiction other than Luxembourg*
- *Changes in the application or interpretation of the Cypriot tax system or in the double tax treaty between Ukraine and Cyprus or a Cypriot subsidiary of the Issuer becoming tax resident in a jurisdiction other than Cyprus*
- *The Issuer is a holding company and is therefore financially dependent on receiving distributions from its subsidiaries*
- *Risks relating to Ukraine*
- *Risks relating to the Notes and the Trading Market*

Use of Proceeds from the Offering

The net proceeds to MHP of the Offering of the New Notes will be approximately U.S.\$329.4 million. The Issuer intends to use the net proceeds from the Offering of the New Notes to repay an estimated aggregate U.S.\$100 million of short-term loan facilities provided by certain Ukrainian banks with the balance of such proceeds being used for general corporate purposes and to finance the expansion and diversification of the Issuer's poultry and grain businesses, principally through the construction of the Vinnytsya chicken farm and land acquisitions (including acquisitions of companies holding land) to increase MHP's aggregate land holdings up to 300,000 hectares. U.S.\$90 million of this amount will be held in cash or cash equivalents but is expected to be used in due course for capital expenditure.

The Exchange Offer

On 12 April 2010, the Issuer launched the Exchange Offer, accompanied by a consent solicitation, with respect to the Existing Notes. MHP will not receive any new proceeds from the Exchange Notes that are being issued in the Exchange Offer.

Recent Trends and Developments

In the first quarter of 2010, MHP's production volumes following the start of production at the second phase of the Myronivka chicken farm were approximately 50% higher than in the three months ended 31 March 2009 due to such capacity being fully operational, and as consumer demand remains high the Group continues to sell close to 100% of the chicken meat it produces. MHP is finalising construction of additional chicken barns at the Starynska breeding farm to further benefit from its vertical integration.

On an average adjusted weight basis, the price for chicken meat for the three months ended 31 March 2010 remained broadly the same as in the three months ended 31 March 2009 and in the three months ended 31 December 2009. The market price for chicken meat has remained stable notwithstanding the higher production costs faced by most poultry producers competing with MHP, particularly due to the high price of corn, which presently prevails, as compared to the three months ended 31 March 2009. Management believes present indications are that prices for chicken meat are trending upwards.

MHP's production costs for the three months ended 31 March 2010 increased as compared with the three months ended 31 March 2009. This increase was mainly attributable to an increase in corn prices to UAH 917 per tonne in the fourth quarter of 2009 compared to UAH 437 per tonne in the fourth quarter of 2008. These prices were used in the calculation of the fair value of corn for accounting purposes and formed the basis of the carrying value of such corn which remained in inventory as of 31 December 2009 and 2008. As a result, fodder related production costs were based on such carrying values when inventory was used in fodder production in the first quarter of 2010 resulting in significantly higher costs in the first quarter of 2010 compared to the first quarter of 2009. This increase in production costs resulted in a decrease in the adjusted EBITDA margin for MHP's poultry and related operations segment as compared to 2009.

Winter sown crops are progressing well and the 2010 spring sowing campaign is underway with all the required seeds and fertilizers already purchased. The current higher grain prices should benefit MHP's grain growing segment if they remain at such levels when forward sales are negotiated and/or actual sales to third parties are made.

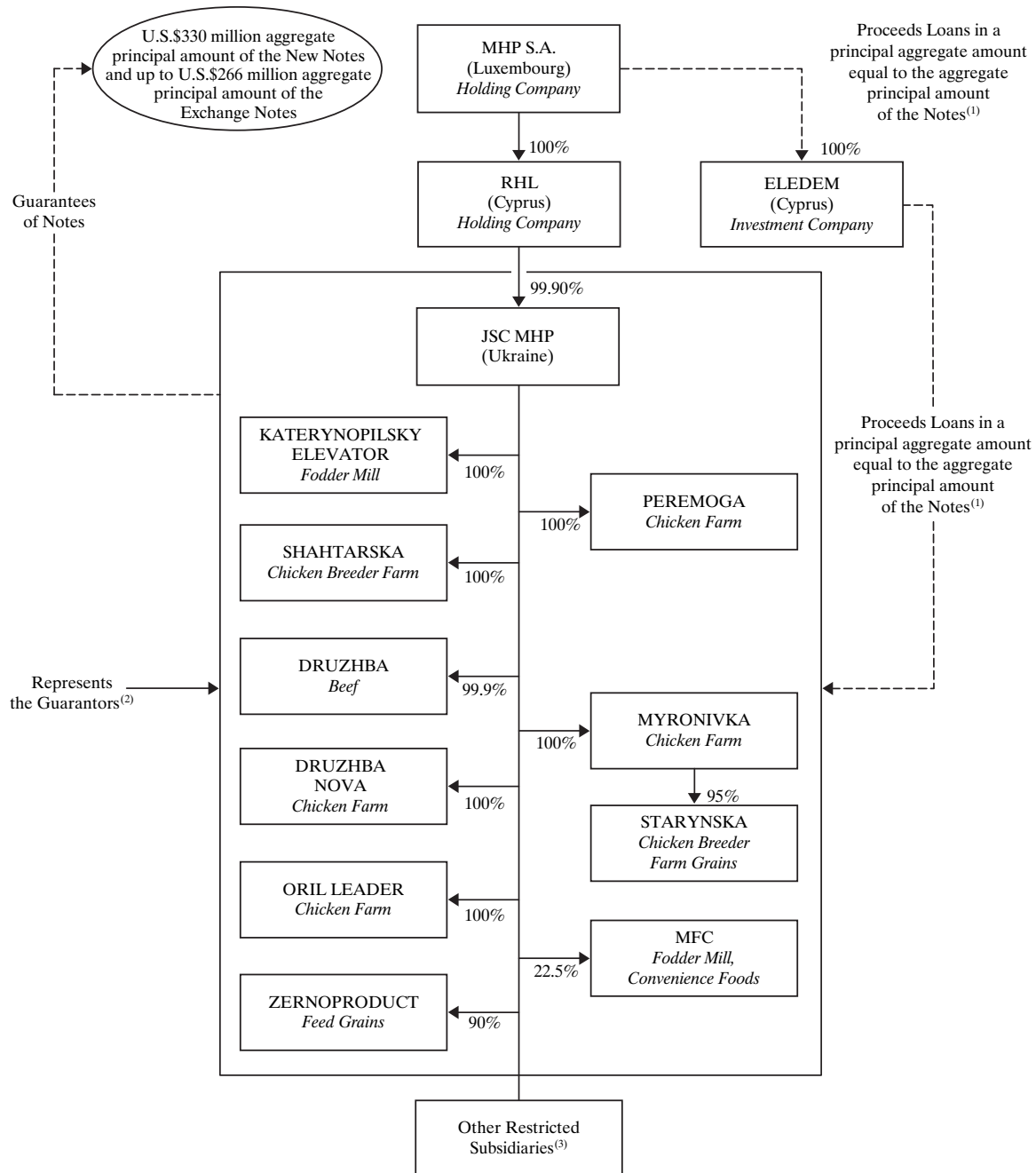
MHP has increased production and sales of processed meat products and convenience food during the three months ended 31 March 2010. Given that most of Ukrainian Bacon's products are sold to the mass market, in which consumer demand continues to grow, MHP continues to increase the quantity of sausages and cooked meat it produces.

Consistent with its land bank expansion strategy, in April 2010, MHP acquired two companies for approximately U.S.\$2 million, with rights over approximately 4,500 hectares in the Cherkasy region.

As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Functional and Presentation Currency", MHP's functional currency is UAH and its presentation currency is U.S. dollars and, as a result, its figures, when viewed in U.S. dollars, are subject to the exchange rate between the hryvnia and U.S. dollar. In addition, MHP's underlying financial results in hryvnia are impacted by exchange rates as various sales and purchases are denominated in U.S. dollars and Euros and/or correlated to world prices expressed in U.S. dollars. In the first three months ended 31 March 2010, the hryvnia/U.S. dollar exchange rate has remained stable and consistent with the exchange rate prevailing at 31 December 2009 and the Euro has slightly weakened against the hryvnia. See "Exchange Rate Information".

Summary Corporate Structure and Financing Arrangements

The following diagram summarises the corporate structure and financing arrangements of the Issuer and its subsidiaries immediately after the Offering and the Exchange Offer (assuming all Existing Notes are exchanged) and the application of proceeds of the Offering as described in “Use of Proceeds”. For more information regarding the existing indebtedness of such subsidiaries, see “Description of Other Indebtedness”.



Notes:

- (1) First-ranking assignments of the Proceeds Loans will be in effect in favour of holders of the Notes. The interests created by these assignments will be shared with the holders of any Remaining Existing Notes.
- (2) As of 31 December 2009, on a *pro forma* basis after giving effect to the Offering and the proposed repayment of UAH 798.5 million (U.S.\$100 million) of bank borrowings, the Guarantors would have had U.S.\$95.8 million of Indebtedness (other than the Guarantees), U.S.\$10.0 million of which is secured and would be effectively senior to the Guarantees. See “Description of Other Indebtedness”.
- (3) As of 31 December 2009, on a *pro forma* basis after giving effect to the Offering and the proposed repayment of UAH 798.5 million (U.S.\$100 million) of loan facilities, the Other Restricted Subsidiaries would not have had any bank borrowings. See “Description of Other Indebtedness”.

OVERVIEW OF THE OFFERING

The overview below describes the principal terms of the indenture governing the Notes (the “**Indenture**”). Certain terms and conditions described below are subject to important limitations and exceptions. The “Description of Notes” section in this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes, including the definitions of certain capitalised terms used but not defined in this summary

Issuer	MHP S.A.
New Notes	U.S.\$330,000,000 aggregate principal amount of 10.25% Senior Notes due 2015.
Exchange Notes	Up to U.S.\$266 million aggregate principal amount of 10.25% Senior Notes due 2015.
Additional Notes	The Issuer may issue Additional Notes from time to time after this Offering and the Exchange Offer. The Additional Notes will rank <i>pari passu</i> with the Notes and will have the same payment terms as the Notes.
Guarantees	<p>The Notes will be jointly and severally guaranteed on a senior basis by JSC MHP, Peremoga, Druzhba Nova, Oril Leader, MFC, Zernoproduct, Druzhba, Myronivka, Katerynopilsky Elevator, Starynska and Shahtarska. The Guarantors collectively generated approximately 98% of MHP’s consolidated revenue for the year ended 31 December 2009, and collectively held approximately 91% of MHP’s consolidated total assets as of 31 December 2009.</p> <p>The Guarantees are subject to release in certain circumstances described herein.</p> <p>The Guarantees will constitute suretyships under Ukrainian law and will be governed by a separate suretyship agreement (the “Suretyship Agreement”). Payment of amounts due under the Guarantees will require compliance with certain Ukrainian currency control regulations. See “—Risk Factors—Risks relating to Ukraine—The Guarantees will constitute suretyships under Ukrainian law and could be challenged” and “—Risk Factors—Risks relating to Ukraine—Ukrainian currency control regulations may impact the Guarantors’ ability to make payments under the Guarantors’ Proceeds Loans and under the Guarantees” in “Risk Factors—Risks Relating to the Notes and the Trading Market”.</p>
Additional Guarantees	The Issuer may from time to time designate a Restricted Subsidiary as an additional guarantor of the Notes (an “ Additional Guarantor ”) by causing it to execute and deliver to the Trustee a supplemental Suretyship Agreement (and on opinion of counsel addressed to the Trustee as to the enforceability of its Guarantee), pursuant to which such Restricted Subsidiary will become a Guarantor. MHP will be required to designate as an Additional Guarantor any Restricted Subsidiary whose assets, at the end of any fiscal quarter, determined on an unconsolidated basis in accordance with GAAP account for more than 10% of MHP’s total assets determined on a consolidated basis in accordance with GAAP.

Proceeds Loans

Pursuant to proceeds loan agreements to be entered into on the Issue Date (the “**New Proceeds Loans**”), the Issuer will on-lend the gross proceeds from the issue and sale of the New Notes and certain other amounts equaling the amount by which the aggregate principal amount of the Exchange Notes exceeds the aggregate principal amount of the Existing Notes exchanged (the “**Exchange Premium Amount**”) to Eledem and Eledem will on-lend such amount to the Guarantors, as co-obligors. Pursuant to amendments to the proceeds loans relating to the Existing Notes (the “**Amended Existing Proceeds Loans**” and, together with the New Proceeds Loans, the “**Proceeds Loans**”), the terms of the existing proceeds loans will be amended to the extent necessary to conform to the payment terms of the Exchange Notes. The Guarantors that are party to the Proceeds Loans, as co-obligors, will be jointly and severally liable for the payment of all amounts due to Eledem under their Proceeds Loans. Interest on the Proceeds Loans will have a maximum interest rate of 11%, the maximum amount currently permitted by the NBU. Regularly accruing interest on the Proceeds Loans will be payable semi-annually not less than two business days and not more than five business days before each interest payment date in respect of the Notes. The Proceeds Loans will be senior obligations that will rank *pari passu* in right of payment to all existing and future unsecured Indebtedness of Eledem and each of the Guarantors, respectively. The Guarantors’ payments under the Proceeds Loan with Eledem may be subject to Ukrainian withholding tax under certain circumstances and may be restricted or limited by certain Ukrainian laws and regulations. See “Risk Factors—Risks Relating to the Notes and the Trading Market”.

Ranking of the Notes and the Guarantee

The New Notes and the Exchange Notes will be issued under the same indenture, will have identical terms, rank *pari passu* and be fully fungible. The Notes will be senior obligations that will rank (a) *pari passu* in right of payment to all existing and future senior unsecured Indebtedness of the Issuer (including any Remaining Existing Notes), (b) senior in right of payment to all existing and future Indebtedness of the Issuer that is expressly subordinated to the Notes, (c) effectively subordinated to all existing and future secured Indebtedness of the Issuer and the Guarantors to the extent of the assets securing such Indebtedness, and (d) structurally subordinated to all existing and future indebtedness of Subsidiaries of the Issuer that are not Guarantors or Additional Guarantors.

Each Guarantee will rank *pari passu* in right of payment to all existing and future senior unsecured indebtedness of that Guarantor (including its guarantees of any Remaining Existing Notes).

As of 31 December 2009, on a *pro forma* basis after giving effect to the Offering and the proposed repayment of UAH 798.5 million (U.S.\$100.0 million) of short-term loan facilities provided by certain Ukrainian Banks, (i) the Issuer would have had no Indebtedness other than the Notes, (ii) the Guarantors would have had approximately U.S.\$85.8 million of unsecured Indebtedness (other than the Guarantees), all of which would have consisted of bank borrowings that would rank *pari passu* with the Notes, (iii) the Guarantors would have had approximately U.S.\$10.0 million of bank borrowings that were secured and would effectively rank senior to the Guarantees and (iv) Subsidiaries that are not Guarantors would not have had any bank borrowings. In addition, at 31 December 2009, there was approximately U.S.\$69.0 million of capital leases and U.S.\$6.3 million of vendor financing that would effectively rank senior to the Notes and Guarantees.

The Issuer is a holding company with no revenue-generating operations of its own. In order to make payments on the Notes or to meet other obligations, the Issuer will be dependent on receiving payments from its subsidiaries, including under the Proceeds Loans.

Security

The Notes will be secured by a first-ranking assignment of the Issuer's and Eledem's rights under (i) their respective New Proceeds Loans and, (ii) provided that, in connection with the Exchange Offer, consents from a majority in the aggregate principal amount of the Existing Notes ("**Majority Consents**") are received to certain amendments to the indenture under which the Existing Notes are issued (the "**Existing Indenture**") and related security documentation (the "**Proposed Amendments**"), their respective Amended Existing Proceeds Loans. The Remaining Existing Notes also will have a first ranking assignment of such Proceeds Loans. In the event that such Majority Consents are not received, the Notes will not have a security interest in the Amended Existing Proceeds Loans until all obligations in respect of the Existing Notes are discharged in full.

Maturity Date

The Notes will mature on 29 April 2015.

Interest

The Notes will accrue interest at a rate equal to 10.25% per annum.

Interest Payment Dates

Interest on the Notes will be payable semi-annually in arrears on 29 April and 29 October, commencing 29 October 2010, to holders of record on the immediately preceding 14 April and 14 October, respectively.

Optional Redemption

At any time prior to 29 April 2013, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of Notes issued under the Indenture at a redemption price of 110.25% (principal amount plus coupon) of the principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that:

- (1) at least 65% of the aggregate principal amount of the Notes (excluding Notes held by the Issuer and its Affiliates) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

At any time prior to the maturity date of the Notes, upon not less than 30 nor more than 60 days' notice, the Issuer may redeem some of the Notes in whole at any time or in part from time to time, at a redemption price equal to 100% of principal amount thereof plus a make-whole premium as of, and accrued and unpaid interest up to, the redemption date. For a description of how to calculate the make-whole premium, see "Description of Notes—Redemption—Optional Redemption".

Redemption for Changes in Withholding Taxes

The Issuer may, at its option, redeem all (but not less than all) of the Notes then outstanding at 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, if the Issuer becomes subject to payment of any Additional Amounts as a result of a change in law. See "Description of Notes—Redemption—Optional Redemption—Tax Redemption".

Change of Control

Upon certain change of control events, the Issuer must offer to repurchase all or part of the Notes at 101% of the principal amount of Notes repurchased plus accrued and unpaid interest. See "Description of Notes—Repurchase at the Option of Holders—Change of Control".

Asset Sales

In certain circumstances, the Issuer must offer to repurchase the Notes at a purchase price of 100% of the principal amount of Notes repurchased plus accrued and unpaid interest and Additional Amounts, if any, following the sale of, and with the proceeds from, certain assets. See "Description of Notes—Repurchase at the Option of Holders—Asset Sales".

Certain Covenants

The Indenture will contain certain covenants that, amongst other things, limit the ability of the Issuer and certain of its subsidiaries to:

- incur additional indebtedness or issue preference shares;
- make certain restricted payments and investments;
- transfer or sell assets;
- create or incur certain liens;
- enter into sale and leaseback transactions;
- issue or sell shares of the Issuer's restricted subsidiaries;
- create restrictions on the ability of the Issuer's restricted subsidiaries to pay dividends or make other payments to the Issuer;
- merge, consolidate, amalgamate or combine with other entities;
- issue guarantees of indebtedness by the Issuer's restricted subsidiaries;
- enter into transactions with affiliates;
- designate restricted subsidiaries as unrestricted subsidiaries; and
- enter in any business other than a permitted business.

Each of the covenants is subject to a number of important exceptions and qualifications. See “Description of Notes—Certain Covenants”.

Transfer Restrictions

The Notes have not been and will not be registered under the U.S. Securities Act or under any other national, state or local securities laws and, as such, are subject to restrictions on transfer. See “Notice to Investors”.

Listing

Application has been made to the Financial Services Authority for the Notes to be admitted to the Official List of the Financial Services Authority and application will be made to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange’s Regulated Market.

Governing Law

The Indenture, the Notes, the Suretyship Agreement and the Proceeds Loans are each governed by, and will be construed in accordance with, the laws of the State of New York. The Proceeds Loan Assignment of MHP’s Proceeds Loans to Eledem will be governed by, and construed in accordance with the laws of Luxembourg; and Eledem’s Proceeds Loan Assignment of its Proceeds Loans to the Guarantors, the laws of Cyprus.

Amendment and Modification

With the written consent of holders of at least 90% of the aggregate principal amount of the outstanding Notes, the Notes may be amended to change the maturity or decrease the interest rate or change the redemption provisions. With the written consent of holders of at least a majority of the principal amount of the outstanding Notes, any other provision of the Notes or the Indenture may be amended, modified or waived.

Ratings

The Notes are expected to be rated B– by Fitch Ratings Limited (“**Fitch**”) and B3 by Moody’s Investors Services (“**Moody’s**”).

Trustee

Deutsche Bank Trust Company Americas (“**Trustee**”).

Security Trustee

Deutsche Bank Trust Company Americas will act as security trustee (the “**Note Security Agent**”) for the holders of the Notes.

London Paying Agent

Deutsche Bank AG, London branch

Paying Agent

Deutsche Bank Trust Company Americas

Transfer Agent

Deutsche Bank Trust Company Americas

Registrar

Deutsche Bank Trust Company Americas

CUSIPs

Regulation S: L6366M AB9

Rule 144A: 55302T AB1

ISINs

Regulation S: USL6366MAB92

Rule 144A: US55302TAB17

Common Codes

Regulation S: 050290832

Rule 144A: 050290883

OVERVIEW OF THE SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows MHP's historical consolidated financial information as of 31 December 2007, 2008 and 2009 and for the years then ended. Such financial information in U.S. dollars has been derived from the Audited Consolidated Financial Statements and related notes included elsewhere in this Offering Memorandum and the hryvnia amounts have been derived from MHP's IFRS consolidation accounting system presented in hryvnia, which are translated into the numbers appearing in the Audited Consolidated Financial Statements pursuant to IAS 21. Such hryvnia amounts have not been derived from audited financial statements. This section should be read together with the Audited Consolidated Financial Statements and related notes included elsewhere in this Offering Memorandum, as well as together with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year ended 31 December					
	2007		2008		2009	
	UAH	U.S.\$	UAH	U.S.\$	UAH	U.S.\$
	(unaudited)		(unaudited)	(unaudited)		(unaudited)
	(in thousands, except ratios)					
INCOME AND EXPENSES DATA:						
<i>Continuing Operations</i>						
Revenue	2,395,909	474,437	4,189,205	802,910	5,552,237	711,004
Net change in fair value of biological assets and agricultural produce	71,919	14,241	44,013	6,327	273,025	35,236
Cost of sales	(1,843,341)	(365,018)	(2,994,949)	(571,710)	(3,901,778)	(499,163)
Gross profit	624,487	123,660	1,238,269	237,527	1,923,484	247,077
Selling, general and administrative expenses . .	(260,573)	(51,599)	(424,264)	(80,495)	(632,398)	(80,972)
Government grants recognised as income . . .	284,261	56,289	571,349	107,663	531,764	67,812
Other operating expenses	(36,737)	(7,275)	(56,215)	(10,022)	(118,720)	(15,209)
Other operating income	6,589	1,306	3,191	600	4,569	576
Operating profit before loss on impairment of property, plant and equipment	618,027	122,381	1,332,330	255,273	1,708,699	219,284
Loss on impairment of property plant and equipment ⁽¹⁾	(51,704)	(10,238)	(90,604)	(11,767)	(10,422)	(1,304)
Operating profit	566,323	112,143	1,241,726	243,506	1,698,277	217,980
Finance costs, net	(249,885)	(49,482)	(270,089)	(51,663)	(396,576)	(50,817)
Finance income	—	—	36,193	6,695	29,602	3,823
Foreign exchange losses, net	(65,950)	(13,059)	(1,176,614)	(187,127)	(184,048)	(23,580)
Other expenses	(3,707)	(734)	(3,705)	(784)	(5,390)	(712)
Gain realised from acquisitions and changes in minority interest in subsidiaries, net ⁽²⁾	6,487	1,285	21,709	4,482	41,684	5,413
Other income	3,379	669	6,524	1,085	11,014	1,408
Other expenses, net	(309,676)	(61,321)	(1,385,982)	(227,312)	(503,714)	(64,465)
Profit/(loss) before tax	256,647	50,822	(144,256)	16,194	1,194,563	153,515
Income tax (expense)/benefit	(2,161)	(428)	(6,739)	(1,279)	50,558	6,488
Profit/(loss) for the year from continuing operations⁽³⁾	254,486	50,394	(150,995)	14,915	1,245,121	160,003
<i>Discontinued Operations</i>						
Loss for the year from discontinued operations ⁽³⁾ , net of income tax	(18,182)	(3,601)	(69,926)	(9,722)	—	—
Net profit for the year	236,304	46,793	(220,921)	5,193	1,245,121	160,003
Attributable to:						
Equity holders of the parent	206,393	40,870	(240,285)	1,518	1,155,993	148,564
Minority interest	29,911	5,923	19,364	3,675	89,128	11,439
Earnings Per Share:						
From continuing operations						
Basic and diluted	2.25	0.44	(1.60)	0.11	10.44	1.34
From continuing and discontinued operations						
Basic and diluted	2.06	0.41	(2.25)	0.01	10.44	1.34

	Year ended 31 December					
	2007		2008		2009	
	UAH (unaudited)	U.S.\$	UAH (unaudited) (in thousands, except ratios)	U.S.\$	UAH (unaudited)	U.S.\$
BALANCE SHEET DATA (as of period end):						
Property, plant and equipment, net	3,155,028	624,756	3,985,241	517,564	5,012,012	627,678
Cash and cash equivalents	50,942	10,088	416,353	54,072	177,649	22,248
Total assets	4,810,287	952,532	7,119,123	924,561	9,086,178	1,137,905
Equity attributable to equity holders of the						
parent	2,053,966	408,034	2,589,475	332,511	3,820,301	474,624
Minority interest	64,034	11,372	76,398	13,706	127,551	19,784
Long-term bank borrowings	332,686	65,878	442,409	57,456	447,505	56,043
Bonds issued	1,230,198	243,604	1,901,150	246,903	1,980,646	248,046
Long-term finance lease and vendor financing obligations	154,215	30,538	369,383	47,972	355,696	44,546
CASH FLOW DATA:						
Net cash generated by operating activities	497,749	98,565	653,254	122,718	957,457	123,062
Net cash used in investing activities	(542,428)	(107,411)	(1,132,378)	(213,620)	(982,090)	(125,867)
Net cash (used in)/generated by financing activities	(128,676)	(25,481)	718,552	141,866	(218,533)	(28,176)
OTHER MEASURES:						
EBITDA from continuing operations ⁽⁴⁾	729,781	144,511	390,815	118,100	1,965,958	252,186
Adjusted EBITDA from continuing operations ⁽⁴⁾	841,276	166,588	1,633,505	312,211	2,113,120	270,961
Capital expenditures ⁽⁵⁾	865,120	171,311	1,293,336	247,774	1,328,827	170,913

Notes:

- (1) During the periods presented MHP recorded impairment losses on certain of its assets used in the production of its goose meat and foie gras operations, assets used in its convenience food business produced under the "Lehko!" brand, and its administrative office premises. See Note 8 to the Audited Consolidated Financial Statements.
- (2) During each of the periods presented MHP recorded gains on acquisitions made from various third parties and on dilutions of minority interests. These gains occurred as the consideration paid was less than the fair value of the net assets acquired. See Note 2 to the Audited Consolidated Financial Statements.
- (3) During the year ended 31 December 2007 MHP discontinued its gas trading operations and during the year ended 31 December 2008 disposed of its shareholding in Kyivska. These operations were classified as discontinued operations, and the financial statements for all periods have been restated to show all periods on a comparable basis.
- (4) EBITDA from continuing operations and Adjusted EBITDA from continuing operations are not measures of performance under IFRS. The Issuer defines EBITDA from continuing operations as profit or loss for the year from continuing operations before net finance costs, income taxes, depreciation and amortisation. Adjusted EBITDA from continuing operations is derived by adjusting EBITDA from continuing operations for foreign exchange gains and losses, net, loss on impairment of property, plant and equipment, gain realised from acquisitions and changes in minority interest in subsidiaries, net, other expenses and other income. The Issuer has made these adjustments to EBITDA from continuing operations as Management believes that these line items are not operational in nature and do not reflect the true nature of the business on a continuing basis and/(or) these line items are either non-recurring or unusual in nature. The Issuer has made these adjustments to present a clearer view of the performance of MHP's underlying business operations and generate a metric that Management believes will give greater comparability over time. Management uses Adjusted EBITDA from continuing operations in MHP's business operations to, among other things, assess MHP's operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present similar measures when reporting their results.

EBITDA from continuing operations and Adjusted EBITDA from continuing operations do not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered by prospective investors to be an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund our future cash requirements. Also, because EBITDA from continuing operations and Adjusted EBITDA from continuing operations are not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies. These measures are unaudited.

Reconciliation of EBITDA and Adjusted EBITDA from continuing operations to profit from continuing operations is as follows:

	Year ended 31 December					
	2007		2008		2009	
	UAH (unaudited)	U.S.\$	UAH (unaudited) (in thousands, except ratios)	U.S.\$	UAH (unaudited)	U.S.\$
Profit/(loss) for the year from continuing operations	254,486	50,394	(150,995)	14,915	1,245,121	160,003
Finance costs, net	249,885	49,482	270,089	51,663	396,576	50,817
Finance income	—	—	(36,193)	(6,695)	(29,602)	(3,823)
Income tax expense/(benefit)	2,161	428	6,739	1,279	(50,558)	(6,488)
Depreciation and amortisation	223,249	44,207	301,175	56,938	404,421	51,677
EBITDA from continuing operations ^(a)	729,781	144,511	390,815	118,100	1,965,958	252,186
Adjustments:						
Foreign exchange losses, net	65,950	13,059	1,176,614	187,127	184,048	23,580
Other expenses	3,707	734	3,705	784	5,390	712
Other income	(3,379)	(669)	(6,524)	(1,085)	(11,014)	(1,408)
Gain realised from acquisitions and changes in minority interest in subsidiaries, net	(6,487)	(1,285)	(21,709)	(4,482)	(41,684)	(5,413)
Loss on impairment of property, plant and equipment	51,704	10,238	90,604	11,767	10,422	1,304
Adjusted EBITDA from continuing operations ^(a)	841,276	166,588	1,633,505	312,211	2,113,120	270,961

(a) Unaudited

- (5) Capital expenditures refer to purchases of property, plant and equipment, purchases of non-current biological assets and other non-current assets, including non-cash investments. Non-cash investments primarily represent finance leases and vendor financing arrangements on the purchase of trucks and other equipment and additions of property, plant and equipment financed through direct bank-lender payments to the vendor.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors in the Notes should carefully consider the risks described below and the other information contained in this Offering Memorandum before making a decision to invest in the Notes. Any of the following risks could adversely affect MHP's or any of the Guarantors' business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline, resulting in the loss of all or part of an investment in the Notes, and the Issuer's ability to pay all or part of the interest or principal on the Notes could be negatively affected. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Risks Relating to MHP

As MHP's principal activity involves producing chicken products, its business and financial results are very dependent on demand and price levels for chicken products in Ukraine

In 2007, 2008 and 2009, respectively, sales of chicken meat, principally chilled chicken, accounted for approximately 60%, 62% and 62% of MHP's total revenues (in U.S. dollar terms). Accordingly, any factors influencing the supply of, demand for, or price of, chicken products in Ukraine could have a material impact on MHP's business and financial results. Such factors may include, amongst others, increased output by other chicken product suppliers in Ukraine, increased imports of chicken products into Ukraine, bird flu and other livestock diseases, unfavourable fluctuations in the prices for chicken products, price regulation by the Ukrainian government, changes in consumer preferences (both seasonal and long term), the supply of and prices for other meats, contamination of meat during processing or distribution and macroeconomic conditions in Ukraine. In addition, the price of chicken meat in Ukraine tends to correlate to the U.S. dollar-denominated world price for chicken meat as, according to the GfK Report, imported frozen chicken products accounted for approximately 18% of all chicken meat sold in Ukraine in 2009. Any of the foregoing factors could negatively affect the market and/or the price for chicken products, which could in turn have a material adverse effect on MHP's business, results of operations, financial condition and prospects. See "Industry Overview—Overview of the Ukrainian Markets for Meat Products—Recent Developments in the Ukrainian Poultry Industry".

MHP's revenues and operating results may be significantly affected by fluctuations in prices for chicken products which can occur even in circumstances where demand is relatively stable, for example, due to increased imports, but also in circumstances where prices are reduced by MHP to stimulate or support demand given actual or planned production. Furthermore, monthly prices are volatile and it is difficult to forecast them with accuracy.

Average market prices for chicken in Ukraine decreased in 2006 from the unusually high levels in 2005, and further decreased in 2007, primarily due to increased supply of pork meat. These decreases had a negative effect on MHP's gross profit margin in 2006 and 2007, particularly in light of increasing grain prices in 2007. Market prices for chicken in Ukraine began to increase in early 2008, primarily due to the increase in prices for feed grains which resulted in decreased supply of other types of meat and justified price increases for chicken meat. While average prices in 2008 and 2009 were generally in line with MHP's expectations for medium term price stability at these levels, if prices for chicken products drop below MHP's expectations, especially for prolonged periods, this would have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

Fluctuations in prices of grains and related products may materially affect MHP's results of operations

The availability of, and the prices for, feed grains are volatile and affected by global weather patterns, crop diseases, the global level of supply inventories and demand for feed grains, as well as the agricultural policies of Ukraine and foreign governments and other factors outside of MHP's control. In particular, a sudden and significant change in weather patterns could affect the supply of feed grains, as well as the ability of MHP and the meat production industry generally to grow and/or obtain feed grains, grow animals and produce products either at all or in requisite quantities and/or at acceptable prices. Similarly, the general supply/demand relationship globally and actual and perceived changes in this relationship have a material impact on grain prices, as demonstrated by a significant decrease in corn prices in the fourth quarter of 2008. In addition, any or all of these factors could also depress selling prices for grains sold by MHP or increase MHP's operating costs. Any of these events and consequences could materially affect

MHP's business, results of operations, financial condition and prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—External Factors Affecting MHP's Results of Operations—Fluctuations in Grain Prices".

A significant portion of the cost of producing MHP's chicken and other meat products is currently impacted by the price of sunflower seeds and corn for use in fodder production. Even though since the 2008/2009 agricultural year, MHP has been self-sufficient in corn for its chicken production, the inter-segment sales of grain by the grain growing segment to the poultry and related operations segment for fodder production reflect the market price for grain. The significant fluctuations in intersegment sales in 2009 were mainly attributable to a drop in grain prices in late 2008 and a subsequent increase during 2009, along with greater demand for internally produced grain in 2009 due to completion of the Myronivka chicken farm. By volume, in the 2009/2010 agricultural year, MHP produced internally all of its corn requirement and 15% of its sunflower seed requirements, and sourced the remainder of its requirements from Ukrainian suppliers at prices which generally follow the trends of the world commodities markets. The price of sunflower seeds also impacts on the price of sunflower oil which MHP produces as a by-product for sale. MHP has therefore historically been vulnerable to price volatility and breaks in the supply chain for feed grains inputs. In the past, MHP and other meat producers globally have been affected by sharp increases in the price of feed grains. Although, Management believes that MHP's operations are somewhat protected against future rises in grain prices as MHP annually enters into forward contracts with suppliers for the purchase of a portion of feed grains in order to economically hedge against fluctuations in feed grains prices and in addition, since the 2008/2009 agricultural year, MHP has been fully self-sufficient in corn for its chicken operations. These factors limit MHP's exposure to fluctuations in prices for and the security of supply of corn and sunflower seeds. However, there can be no assurance that MHP's expectations will materialise or that MHP will be able to pass on any increase in cost to the buyers of its chicken meat products.

In addition, fluctuations in global grain prices and, in particular, grain prices in Ukraine also impact the level of earnings achieved by MHP for the grains it sells to third parties. All such sales are made at or by reference to such market prices, and MHP is accordingly directly subject to fluctuations in such prices. Should grain prices fall below certain levels, the viability of MHP's grain cultivation operations could be materially affected given the fixed nature of certain of MHP's costs in connection with grain cultivation, including, in particular, leases of land. In addition, prices for grain and grain-related products (such as sunflower oil) may be influenced by government regulation, including introduction of import or export quotas. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Trends and Developments". Fluctuations in prices resulting in a material reduction of revenue for MHP's grain cultivation or related businesses could materially affect MHP's business, results of operations, financial condition and prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—External Factors Affecting MHP's Results of Operations—Fluctuations in Grain Prices".

State support from which MHP currently benefits is significant and could be discontinued

The Ukrainian government provides various types of financial support to agricultural producers. In 2009, MHP recognised an aggregate of UAH 531.8 million (U.S.\$67.8 million) in government grants income from the Ukrainian government, which constituted 31% in U.S. dollar terms of MHP's operating profit before loss on impairment of property, plant and equipment as compared to 2008, when MHP recognised an aggregate of UAH 517.3 million (U.S.\$107.7 million), which constituted 42% in U.S. dollar terms of MHP's operating profit before loss on impairment of property, plant and equipment and 2007, when MHP recognised an aggregate of UAH 284.3 million (U.S.\$56.3 million), which constituted 46% in U.S. dollar terms of MHP's operating profit before loss on impairment of property, plant and equipment.

The value added tax ("VAT") subsidy provisions for agricultural companies were renewed from 1 January 2009 and, as of that date have unlimited duration. These provisions allow agricultural producers in Ukraine, including MHP, to retain the difference between the VAT that they charge on their agricultural products (currently at the rate of 20%) and the VAT that they pay on items purchased for their operations, rather than remitting such amounts to the state budget. The amount of subsidy received as a result of the application for this special VAT regime may be used for agricultural purposes as well as for any other business purposes. This VAT benefit was received by MHP in 2009 and continues to be available to MHP. The value of this benefit to MHP amounted to UAH 514.4 million (U.S.\$65.6 million) in 2009. Prior to coming into force of such extended VAT provisions on 1 January 2009, MHP also received appropriate VAT benefits in 2007 and 2008, however, it was only allowed to retain the amount of such benefit to

support production of its own products. In 2007 and 2008 MHP's VAT benefits amounted to UAH 107.9 million (U.S.\$21.3 million) and UAH 319.4 million (U.S.\$59.3 million). Under the current law, the subsidy will increase or decrease in line with sales of the relevant products.

As long as MHP is entitled to retain VAT from the sales of its agricultural products, any reduction of the VAT rate will result in a decrease of the amounts of output VAT received and retained by MHP. In addition, any decrease in the difference between the amount of VAT charged on MHP's agricultural products and the amount of VAT paid by MHP on items purchased for its operations in a particular period would reduce the amount of the VAT output or retention benefit received by MHP in such period. The cessation of the VAT subsidy or any of the foregoing changes in respect of the VAT retention benefit could have a material adverse effect on MHP's business, results of operations, financial condition and prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—External Factors Affecting MHP's Results of Operations—State Support for Agricultural Production in Ukraine—Government Grants".

Following its accession to the World Trade Organisation ("WTO") on 16 May 2008, Ukraine is able to provide the so-called "amber box" subsidies, which are capped on an annual basis at (i) 5% of the overall agricultural production value of a particular product generated in Ukraine in the relevant year, plus (ii) 5% of the overall production value of a particular product generated in Ukraine in the relevant year (if subsidies are provided to the producers of a particular product), plus (iii) up to an additional UAH 3.043 billion (approximately U.S.\$0.4 billion). These subsidies may be provided in the form of direct financial aid to agricultural producers as well as in the form of tax exemptions and minimum price support. Based on Ukraine's 2008 overall agricultural output as reported by SCSU, the upper limit of "amber box" subsidies in 2009, excluding product-specific support, was equal to approximately UAH 10.585 billion (U.S.\$1.335 billion). This is approximately 2.9 times higher than direct state subsidies to the Ukrainian agricultural sector set under the 2009 Budget Law at approximately U.S.\$467 million. The 2010 Budget Law is scheduled to be issued by the end of April 2010, however it is expected that the direct state subsidies to the Ukrainian agricultural sector will not exceed the upper limit of "amber box" subsidies.

In addition to the VAT benefit discussed above, Ukrainian agricultural producers also receive various government grants, including grants related to the processing of animal products, the conduct of selection programmes in chicken and beef breeding and crop and orchard growing, as well as partial compensation for finance costs under loans from Ukrainian banks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—External Factors Affecting MHP's Results of Operations—State Support for Agricultural Production in Ukraine—Government Grants". During the years ended 31 December 2007, 2008 and 2009, the Budget Laws established subsidies for companies engaged in the processing of live animals (poultry, cows and pigs). This subsidy was provided to MHP's chicken farms in the form of a payment for each animal slaughtered at the farms and fluctuated from UAH 0.5 to UAH 1.0 per animal during 2007 and 2008. This type of subsidy was also available to MHP's beef and pork processing facilities. The regulations required to provide similar grants were not issued in 2009 and are not expected to be issued in respect of 2010. Although direct government grants for the processing of live animals, which amounted to UAH 240.7 million (U.S.\$46.1 million) in 2008, were discontinued in 2009 (except for UAH 6.1 million (U.S.\$0.8 million) received by MHP in relation to beef and pork processing), the negative impact on MHP's operating profits were largely offset in 2009 by the increases in VAT refunds, which generally increased in line with production and sales.

The precise scope of the state subsidies depends on the funds allotted for these purposes in the state budget for the relevant year and the implementation measures undertaken by the government in allocating and distributing the relevant funds to agricultural producers. There is no guarantee that the government grants, including the VAT subsidy, will not be discontinued in the future, and any cancellations or limitations of the state support mechanisms discussed above, whether as a result of the WTO accession or otherwise, could have a material adverse effect on MHP's business, results of operations and financial condition. In addition, although MHP believes that it is in material compliance with the conditions and requirements for receiving various types of financial support, any failure by MHP to comply with such conditions and requirements could have a material adverse effect on MHP's business, results of operations and financial condition.

As a producer of agricultural products MHP currently benefits from tax exemptions which could be discontinued

Under Ukrainian law, producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, in accordance with the Law of

Ukraine “On the Fixed Agricultural Tax”, dated 17 December 1998, as amended (the “**Law on Fixed Agricultural Tax**”), agricultural companies engaged in the production, processing and sale of agricultural products may choose to be registered as payers of fixed agricultural tax (“**FAT**”), provided that sales of agricultural goods representing their own production account for more than 75% of their gross revenue. FAT is paid in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT payable is calculated as a percentage of the deemed value of all land plots (determined as of 1 July 1995) used for agricultural production that are leased or owned by a taxpayer, at the rate of 0.15%. In accordance with the Law on Fixed Agricultural Tax, MHP elected to pay FAT in lieu of other taxes in 1999 and for subsequent years, and currently a number of the Issuer’s subsidiaries pay FAT. In 2009, MHP paid FAT in an aggregate amount equivalent to approximately 0.1% of its net profit in hryvnia terms which was broadly constant compared to 2007 and 2008. According to the amendments introduced into the Law on Fixed Agricultural Tax in 2008, the FAT regime was extended for an unlimited period of time, however there is no guarantee that the FAT regime will not be discontinued in the future, which would have a material adverse effect on MHP’s business, results of operations, financial conditions and prospects.

MHP is exposed to currency exchange rate risk

MHP’s operating assets are located in Ukraine, and its revenues and costs are denominated primarily in hryvnia, which is not convertible outside Ukraine. However, certain of MHP’s foreign currency revenues consist principally of revenues from export sales of sunflower oil and grain, which accounted for 65.8% and 19.7%, respectively, of MHP’s total export sales in U.S. dollar terms in 2009, and increased significantly year-on-year during 2007-2009. The increase in MHP’s foreign currency revenues from UAH 640.4 million (U.S.\$120.8 million) in 2008 to UAH 1,202.2 million (U.S.\$152.9 million) in 2009 was mainly attributable to an increase in the volume of sunflower oil sales and commencement of grain export in 2009. MHP’s foreign currency expenditures consist principally of the cost of purchasing breeder flocks, non-grain components for mixed fodder, production equipment and finance costs. From a cash-flow perspective, MHP’s exposure to currency exchange rate fluctuations as a result of its foreign currency payments is partially offset by its U.S. dollar revenues from export sales of sunflower oil and grain, which have been sufficient in 2009 to cover foreign currency-denominated finance costs, loans repayments and import purchases for operational activities, including breeder flocks and non-grain components for mixed fodder but not MHP’s foreign currency denominated capital expenditure requirements. Due to the absence in Ukraine of a legislative basis for creating hedging instruments, the prevailing market practice in Ukraine, to which MHP adheres, is not to hedge against currency fluctuations. In 2008, the hryvnia depreciated against the U.S. dollar by 52.5% and against the Euro by 46.3% as compared to year-end 2007, and further depreciated against these currencies in 2009 by 3.7% and 5.5%, respectively, which had a material negative effect on MHP’s finance costs associated with indebtedness denominated in foreign currency and on MHP’s costs associated with purchases of imported equipment. See also “—Risks Relating to Ukraine—The Ukrainian currency is subject to volatility and depreciation” below. Any future depreciation of the hryvnia against the Euro or U.S. dollar will increase MHP’s expenses in hryvnia terms and could have a material adverse effect on MHP’s business, results of operations, financial condition and prospects.

MHP must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put MHP into default

As at 31 March 2010, MHP had total short and long-term bank borrowings of UAH 1,493.1 million (U.S.\$188.4 million).

In November 2006, the Issuer issued U.S.\$250,000,000 10.25% senior guaranteed notes due 2011 (the “**Existing Notes**”). The Issuer’s obligations on the Existing Notes are guaranteed by the same guarantors as the Notes, namely MHP’s principal operating subsidiaries JSC MHP, Peremoga, Druzhba Nova, Oril Leader, MFC, Zernoproduct, Druzhba, Myronivka, Katerynopilsky Elevator, Starynska and Shahtarska.

The indentures governing the Notes, the Existing Notes and certain of MHP’s other borrowings contain covenants that limit the discretion of Management with respect to certain business matters. For example, these covenants significantly restrict the ability of the Issuer and certain of its subsidiaries to, amongst other things:

- incur additional debt or grant loans to other persons;
- pay dividends or distributions on, redeem or repurchase capital stock;

- make certain restricted payments and investments;
- create certain liens;
- transfer or sell assets;
- engage in sale and leaseback transactions;
- merge or consolidate with other entities; and
- enter into transactions with affiliates.

Compliance with these covenants could materially and adversely affect the Issuer's ability to finance the future operations or capital needs of the Issuer or its subsidiaries and/or to incur additional debt or to engage in other business activities that may be in the best interests of the Issuer or its subsidiaries. This may also limit MHP's ability to pursue its growth and development of its business.

In addition, any breach of the terms of the Notes, the Existing Notes or the covenants associated with any of MHP's other debt obligations could cause a default under the terms of MHP's indebtedness, causing some or all of MHP's indebtedness to become immediately due and payable. Such default could also result in MHP's creditors proceeding against the collateral securing its indebtedness. Any such action could materially and adversely affect MHP's business, results of operations, financial condition and prospects. If MHP's indebtedness were to be accelerated, MHP might not have sufficient funds to satisfy such obligations, and even if it did meet the requirement, to make such payments could materially and adversely affect MHP's business, results of operations, financial condition and prospects.

MHP has been and will continue to be controlled by a majority shareholder and depends on his services as Chief Executive Officer

Mr. Kosyuk, the Issuer's Chief Executive Officer, beneficially owns approximately 73.23% of the Issuer's shares. Save for those matters which require the unanimous consent of all shareholders, such as a change of the nationality of the Issuer and increasing the liability of the shareholders, Mr. Kosyuk has the ability to control any action requiring shareholder approval, including electing the majority of the Issuer's Board of Directors and determining the outcome of most corporate matters without recourse to the Issuer's minority shareholders. For example, Mr. Kosyuk could cause MHP to pursue acquisitions and other transactions, even though such transactions may involve increased risk for the holders of the Notes (" **Holders** " or " **Noteholders** "). Mr. Kosyuk and the Issuer have entered into a relationship agreement aimed at, amongst other things, protecting the Issuer's interests in the case of conflicts of interests. See "Directors, Corporate Governance and Management—Relationship Agreement". Nevertheless, the interests of Mr. Kosyuk and other shareholders and members of MHP's management may, in some circumstances, conflict with the interests of Noteholders. For example, the Issuer's subsidiaries have engaged in and continue to engage in transactions with related parties, including parties that are controlled by Mr. Kosyuk. Conflicts of interest may arise among MHP, Mr. Kosyuk and other companies controlled by Mr. Kosyuk, resulting in transactions otherwise than on an arms' length basis. Any such conflicts of interest or transactions could have a material adverse effect on MHP's business, results of operations, financial condition and prospects. See "Directors, Corporate Governance and Management—Corporate Governance" and "Shareholders and Related Party Transactions".

In addition, Management believes that MHP's continued success depends to a significant extent on Mr. Kosyuk's abilities and efforts. MHP does not maintain a key person life insurance policy on Mr. Kosyuk. The loss of Mr. Kosyuk's services could have a material and adverse effect on MHP's business, results of operations, financial condition and prospects. See "Directors, Corporate Governance and Management—Directors".

MHP's accounting and reporting systems, accounting personnel and its internal controls and procedures do not have a long history of preparing IFRS financial statements

Similar to many other companies that operate in emerging markets, MHP's accounting and reporting systems are not as sophisticated as those of companies organised in jurisdictions with a longer history of compliance with IFRS and the production of complete monthly financial statements for management purposes. The internal audit function of MHP is not presently fully operational, and the lack of established accounting and reporting systems which have been in operation for an extended period of time may make MHP's financial information less reliable than that of companies that have implemented these systems over a longer period of time. These shortcomings could adversely impact the quality of decision making by

MHP's senior management due to delays in producing complete management accounts on a basis consistent with IFRS. Historically, MHP's senior management has largely based its decisions on sales and cost figures and demand and price trends rather than complete IFRS monthly financial statements.

Each of MHP's Ukrainian subsidiaries prepares separate financial statements under Ukrainian accounting standards for statutory purposes. The preparation of IFRS consolidated financial statements involves, first, the transformation of the statutory financial statements of MHP's Ukrainian subsidiaries into IFRS financial statements through accounting adjustments and, second, the consolidation of all subsidiaries' financial statements. This process is complicated and time-consuming and requires significant attention from MHP's senior accounting personnel at its corporate headquarters and subsidiaries. MHP's accounting systems and the internal controls and procedures relating to the preparation of the IFRS financial statements are not as advanced as those of companies operating in more developed countries. In particular, there is a risk that preparation of annual or interim IFRS consolidated financial statements may require more time for MHP than it does for companies in more developed countries.

Notwithstanding the above, Management believes that MHP's financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

Failure of IT systems could materially affect MHP's business

All of MHP's accounting records are maintained on a variety of IT systems. In addition, MHP depends on various IT systems for the monitoring, execution and production of orders and for invoicing and payment monitoring. Although MHP backs up its IT systems and has a basic disaster recovery plan, the failure of any IT systems could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

Competition in the meat industry could adversely affect MHP's business

In general, competitive factors in the meat industry include price, product quality, brand value, breadth of product line and customer service. MHP faces competition from other vertically integrated poultry producers in Ukraine in respect of its principal chicken products. MHP also faces competition from importers of foreign frozen poultry products, particularly from imports from the United States, as well as from Ukrainian households that produce chicken and from illegal imports. MHP may in the future face increased competition from new domestic and foreign or foreign supported entrants into the Ukrainian poultry market. Competition from non-Ukrainian competitors has increased following Ukraine's accession to the WTO on 16 May 2008. New entrants into the Ukrainian poultry market, including producers backed by foreign companies, may have greater financial, technical and other resources, greater operating experience and other advantages. In 2009, MHP's share of the Ukrainian market for industrially produced poultry was approximately 43%, as compared to approximately 39% and 36% in 2008 and 2007 respectively.

MHP also competes with Ukrainian producers of other types of meat, such as beef and pork. For example, the prices for MHP's chicken products decreased significantly in early 2007 due to the increased supply of pork to the Ukrainian market. Competition in the meat industry could force MHP to reduce prices for its products or could result in a reduction in MHP's sales volumes and/or could result in the Group being unable to maintain and/or increase its profit margins in line with its growth strategy, any of which could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

Poor growing conditions may adversely affect MHP's grain production

Weather conditions are a significant operating risk affecting MHP's grain growing operations, which are located in central Ukraine where the climatic conditions are not always conducive to maximising crop yields. Weather not only directly impacts the grain yield but also the ability to harvest and its cost. Weather and other aspects of growing conditions may also lead to a greater use of fertilisers and other chemicals, which may also increase costs. Accordingly, MHP is highly susceptible to the variable growing conditions of these regions, and the resulting impact on the production of grains. MHP's ability to deliver grains to third parties and to its own operations in a timely manner and in sufficient quantities may be affected by weather conditions, including, amongst others, drought, flood, snow or frost. Growing conditions can also be impacted by the availability and cost of fertilisers. Although MHP is partially self-sufficient in fertilisers, fertiliser purchases accounted for a material part of MHP's cost of sales for its grain growing segment for

the year ended 31 December 2009. Prices for fertilisers in Ukraine are highly influenced by global prices on fertilisers. The relationship between fertiliser price and grain price determines the optimal amount of fertilisers that could be used on land based upon the optimal amount of fertilisers needed on any particular land to maximise yields. Depending upon this relationship, MHP may not be able to maximise yields by optimising its use of fertilisers and/or if it does so, completely or in part, its costs may be materially adversely affected. Such factors could materially adversely affect MHP's grain output and, as a result, MHP's business, results of operations, financial condition and prospects.

Insufficient access to quality seeds may adversely affect MHP's grain production

Good quality seeds are important to successful, high yielding crops. Ukraine suffers from a lack of good quality seeds for a number of reasons, including the following: (i) a large number of Ukrainian seed suppliers have experienced financial difficulties; (ii) the global decline of the agricultural sector in the late 1990s and early 2000s; and (iii) the reluctance of foreign suppliers to sell seeds into Ukraine due to the lack of adherence to intellectual property rights. While MHP is self-sufficient in wheat seeds and sources the rest of its seeds requirements from a wide range of suppliers, MHP's inability to source a sufficient amount of quality seeds in a timely manner could materially affect MHP's business, results of operations, financial condition and prospects.

An increase in MHP's production costs, including energy and labour costs, could materially and adversely affect its profitability

Due to MHP's vertical integration, Management believes that it currently has relatively low production costs compared to the industry average. MHP's main production costs other than grain (see “—Fluctuations in prices of grains and related products may materially affect MHP's results of operations” above) are principally utilities to operate production facilities, labour costs, equipment, breeder flocks, imported fodder additives and land fertilisers. Increased production costs could result from a number of factors beyond MHP's control, including increased global prices for any of the principal costs of production and, to the extent purchased in currencies other than UAH, the prices may effectively be increased due to a further devaluation of UAH (See also “—MHP is exposed to currency exchange rate risk” below). There can be no assurance that MHP will be able to pass on any increase in production costs to its customers and, as a result, this could materially and adversely affect MHP's profitability, business, and results of operations, financial condition and prospects.

If MHP needs to raise additional capital or refinance its debt, its business could be harmed if it were unable to do so on acceptable terms

If, in the longer term, MHP is unable to generate and maintain positive operating cash flows and operating income, it may need additional funding. There can be no guarantee that MHP will be able to do so either at all or on acceptable terms. If additional capital were needed in the longer term, MHP's 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.

Failure to generate or raise sufficient capital may hamper MHP's development strategy

In order to implement its development strategy, MHP plans to have significant need for capital for capital expenditures in the future. MHP's capital expenditures will primarily be in relation to the expansion of the poultry and grain business (including the potential construction of the Vinnytsya chicken farm). MHP's cash flow from operations and MHP's cash balances may not be sufficient to finance MHP's planned capital expenditures and additional financing may be required. Certain circumstances may affect MHP's ability to raise adequate capital, such as the terms of existing financing arrangements (including, the Notes and the Existing Notes) or any changes thereto, expansion of facilities at a faster rate or higher capital cost than anticipated, slower than anticipated revenue growth, regulatory developments and outbreaks of bird flu and other diseases.

Therefore, to meet its financing requirements in line with its development strategy, MHP may need to attract equity investments or incur more debt. It may be difficult for MHP to obtain debt financing in Ukraine in local currency on commercially acceptable terms in the future. In addition, certain currency control regulations hinder MHP's ability to obtain hard currency denominated financings from international lenders on favourable terms, because loans in foreign currency extended to Ukrainian borrowers are subject to prior registration with the NBU and maximum interest rates established by the NBU. These regulations may be subject to changes and varying interpretations, complicating both the

process of determining whether registration is required and the process of obtaining such registration. Although MHP has not experienced any complications in connection with such NBU registration process in the past, there can be no assurance that this will continue to be the case. If MHP cannot obtain adequate funds to satisfy its future capital requirements, it may need to curtail or discontinue the expansion of its facilities, which could slow MHP's growth, lead to a loss of market share and otherwise have a material adverse effect on MHP's business, results of operations, financial condition and prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources" and "Risks Relating to the Notes and the Trading Market—An interest rate cap may limit the Guarantors' ability to make payments under the Guarantors' Proceeds Loans".

Outbreaks of bird flu and other livestock diseases could have a material adverse effect on MHP's business

Outbreaks of livestock disease could significantly restrict MHP's ability to conduct its operations. Since 2003, the H5N1 strain of bird flu, which is potentially lethal to humans, has infected poultry flocks and other birds in several countries around the world, including Ukraine. Bird flu is highly contagious among birds and can cause sickness or death of some domestic poultry, including chickens, geese, ducks and turkeys. In 2007, several cases of bird flu were reported in wild birds and domestic poultry in the Crimea and Sumy regions of Ukraine. There have been cases of bird flu in domestic birds and wild birds reported in January and February 2008, respectively in the Crimea region of Ukraine. Additionally, bird flu was reported at a poultry farm in Romania near the Ukrainian border in March 2010, which resulted in Ukrainian state authorities prohibiting import of poultry from Romania.

Newcastle Disease is a contagious and fatal viral disease affecting most species of birds. While no cases of bird flu or Newcastle Disease have been reported at the farms operated by Ukrainian large-scale industrial poultry producers and the Ukrainian state authorities continue to implement a variety of measures to prevent the further spread of bird flu and Newcastle Disease, there can be no assurance that this will continue to be the case. See "Industry Overview—Overview of the Ukrainian Markets for Meat Products—Recent Developments in the Ukrainian Poultry Industry".

Although, as of the date of this Offering Memorandum, no cases of bird flu or Newcastle Disease have been reported within, or in areas in close proximity to, MHP's production facilities, there can be no assurance that this will continue to be the case, especially as attacks have occurred in regions where MHP operates its facilities. See "Business—Biosecurity". Any outbreak of a livestock disease in Ukraine could result in any of the following measures being imposed by Ukrainian governmental authorities:

- restrictions on the movement and/or the sale of live chicken or chicken products by MHP;
- requirements for MHP to destroy one or more of its flocks; or
- placing MHP's facilities in quarantine until the threat of disease spreading is eliminated.

MHP does not maintain insurance to cover the consequences of livestock diseases, including those cited above. There is a basis under Ukrainian law for producers to claim government compensation in the case of a required culling of birds. However, applicable Ukrainian legislation provides the relevant government authorities with the right to refuse a payment of compensation but does not specify the grounds on which such refusal could be made. Furthermore, there is no basis for government compensation if certain measures (other than culling) are taken. Irrespective of whether government restrictions are imposed or MHP is required to destroy one or more of its flocks, any outbreak of disease on the territory of Ukraine or in the neighbouring countries could create adverse publicity, which may reduce demand for MHP's products. Even if there is no outbreak of bird flu at MHP's facilities, negative reaction from potential customers, government authorities, lenders or insurance providers could adversely affect MHP through a loss of customers, the application of new regulations or livestock culling requirements, the failure to obtain financing or the loss of insurance coverage generally. Any of these consequences could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

Any interruption to supplies of breeding flocks could have a material adverse effect on MHP's business

MHP currently sources its breeding flocks from a single supplier in Germany. While no cases of bird flu or other livestock diseases have been reported in German industrial poultry production facilities, there can be no assurance that this will continue to be the case. Outbreaks of bird flu in EU countries may result in Ukraine banning imports of breeding flocks from affected territories in the EU or particular countries within the EU prohibiting the export of birds from affected territories. To address the possibility of any

such import or export bans, MHP has contingency arrangements with its suppliers for sourcing of breeding flocks from the U.K. and The Netherlands and has discussed such arrangements for sourcing breeding flocks from the United States. MHP expects that the cost of breeder flocks imported from the United States would be higher than the cost of its current supplies. There can be no assurance that any such alternative supplies would be readily available to meet MHP's requirements or at all. In addition, supplies of breeder flocks have in the past and may in the future be interrupted by adverse weather conditions impacting deliveries and custom and border delays. Any significant interruption to supplies of breeding flocks due to bird flu, other diseases, adverse weather conditions or custom problems would have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

If MHP's products become contaminated, it may be subject to product liability claims and product recalls

MHP's products may be subject to contamination by disease producing organisms, or pathogens, such as listeria monocytogenes, salmonella and generic E. coli. These pathogens are found generally in the environment and therefore there is a risk that, as a result of food processing, they could be present in MHP's products. These pathogens can also be introduced to MHP's products as a result of improper handling by other food processors, franchisees, foodservice providers or consumers. These risks may be controlled, but can not be eliminated, by adherence to good manufacturing practices and finished product testing. Even if a product is not contaminated when it leaves MHP's facilities, it may become contaminated as a result of the actions of future handlers. This may result in MHP being required to satisfy the claims of affected consumers if such claims are not satisfied by MHP's franchisees or wholesale customers. Increased sales of convenience food products by MHP could lead to increased risks in this area. Any shipment of contaminated products is a violation of law and may lead to product liability claims, product recalls (which may not entirely mitigate the risk of product liability claims), adverse publicity, fines and increased scrutiny by governmental regulatory agencies and could have a material adverse effect on MHP's reputation, including the strength of its brand names, and demand for MHP's products, and, therefore, on MHP's business, results of operations, financial condition and prospects.

In addition, under Ukrainian law, a consumer who has sustained damages as a result of consuming a low-quality or dangerous food product produced by MHP may bring a claim for damages against MHP. Any such third-party claim for damages could have a material adverse effect on MHP's business, results of operations, financial condition and prospects. See “—MHP's insurance coverage may be inadequate” below.

Seasonality in the demand for chicken products affects the market price for chicken products and MHP's sales and earnings

Profitability in the chicken industry is affected by the prevailing price of chicken products, which is primarily determined by supply and demand in the market. MHP has in the past experienced fluctuations in its earnings due to seasonal demand for chicken products. In a typical year, the prices for chicken products generally reach their peak during the summer months due to the customers' preference for meat with lower fat content during hotter periods, followed by a decrease in prices during autumn and winter. Although MHP is able to freeze a certain amount of its chicken products or to process more chicken meat as convenience food, which can be stored for longer periods of time, or to sell its products at lower prices in response to decreases in demand, MHP may be unable to effectively manage inventories to address seasonal changes in demand, which could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP is dependent on qualified personnel

MHP's growth and future success will depend on its continued ability to attract, retain and motivate qualified professionals, including managerial, veterinarian, land management, sales and marketing personnel. Competition for these types of personnel in Ukraine is high. An inability to hire and retain additional qualified personnel will impair MHP's ability to continue to expand its business. Although MHP has established programmes for attracting and retaining qualified personnel, MHP cannot provide any assurance that it will be successful in recruiting and retaining a sufficient number of personnel with the requisite skills to replace any personnel that leave and meet the needs of its planned expansion. See “Business—Employees”. Competition in Ukraine for personnel with relevant expertise is intense due to the small number of qualified individuals. A failure to successfully manage its personnel needs may materially and adversely affect MHP's business, results of operations, financial condition and prospects.

Any failure to protect its brand names and other intellectual property could adversely affect MHP's business

As MHP's success depends to a significant extent upon the recognition of and goodwill associated with its brand names and trademarks, in particular "Nasha Ryaba", "Lehko!", "Europroduct" and "Baschinsky". Maintaining the reputation and value of MHP's brand names and trademarks is critical to its success. Substantial erosion in the value of MHP's brand names and trademarks due to product recalls, customer complaints, adverse publicity, outbreaks of livestock disease, legal action or other factors could have a material adverse effect on MHP's business, results of operations, financial condition and prospects. Moreover, MHP's products may be imitated or copied, or retailers may seek to market products produced by other companies as MHP's products.

The legal system in Ukraine generally offers a lower level of intellectual property rights protection and enforcement than the legal systems of many other countries in Europe and in North America. Steps taken to protect MHP's trademarks and other intellectual property rights may not be sufficient and third parties may infringe or challenge such rights, and if MHP is unable to protect such intellectual property rights against infringement, it could have a material adverse effect on its business, results of operations, financial condition and prospects.

In addition, there is a possibility that certain of MHP's brands including "Foie Gras" and "Certified Angus" may be considered generic and challenged which may result in MHP having to retract or re-brand any affected products. This could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

Increased costs for or disruptions in the supply of gas and fuel could adversely affect MHP's business and financial results

MHP requires a substantial amount of natural gas and fuel to produce and distribute its chicken products, and as it expands its business its needs will increase. The prices of natural gas and fuel fluctuate significantly over time. MHP may not be able to pass on increased costs of production and distribution of its products to its customers. Any such increases may increase MHP's costs and could result in reduced profits. In addition, MHP is dependent on third parties for the supply of natural gas and fuel, and this supply could be disrupted. Any increases in the cost of natural gas and fuel, and any disruption in the supply of these items to MHP, could have a material adverse effect on MHP's business, results of operations, financial condition and prospects. See "Risks Relating to Ukraine—Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy".

MHP may be unable to identify suitable franchising opportunities or successfully manage its franchisee network

In 2009, the share of MHP's revenue from its franchise network was approximately 40% of MHP's total revenue from the sales of chicken meat, as compared to approximately 45% and 60% in 2008 and 2007, respectively.

As of 31 March 2010, MHP had 2,331 franchise points of sale. MHP's expansion plans depend on its ability to identify suitable additional franchising opportunities and on its existing franchisees remaining commercially viable. In 2009, MHP terminated its relationship with approximately 3% of its franchisees, who had failed to remedy the deficiencies in the operation of their outlets following inspections by MHP. There can be no assurance that suitable franchisees will be found in the future or that they will be successful in selling MHP's products. Competition may also reduce the number of suitable franchise opportunities and increase the bargaining power of prospective franchisees. MHP entrusts the management of each franchise point of sale to franchisees. Differing levels of quality of service across each regional franchise network or improper management by any franchisee could compromise MHP's image among consumers and the value of its brands. In addition, there can be no assurance that MHP's franchisees will not breach their contractual obligations to MHP or that their conduct will not damage the commercial interests of MHP. Any of the foregoing could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP's reliance on independent retailers could adversely affect its business, results of operations, financial condition and prospects

MHP's sales to independent retailers such as supermarkets have increased in 2009 as compared to 2008 and 2007 and accounted for approximately 40% of MHP's total revenue from the sales of chicken products, as compared to approximately 40% and 30% in 2008 and 2007, respectively.

The supermarket retail market is highly competitive and marked by increasing price competition and competition for shelf space. MHP's operations and distribution costs could be adversely affected by the increased consolidation of the retail market, particularly as the supermarkets in Ukraine become more sophisticated and attempt to force lower pricing, price discounts, increased promotional programmes and branding under the supermarket's private label, which could also have the affect of diluting MHP's brand value. MHP also competes with other brands for shelf space in retail stores and marketing focus by independent retailers. Additionally, supermarkets typically insist on longer payment periods for sales to them. The Group typically allows between 5 and 30 days for payments of invoices for sales to supermarkets and this results in a high level of trade accounts receivables. If retailers give higher priority to other brands, purchase less of, or even refuse to buy, MHP's products, seek substantial discounts, devote inadequate promotional support to its products or fail to pay for sales in a timely manner, this could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP could be subject to liabilities if it is determined that past actions violated Ukrainian corporate laws or regulations

Ukrainian corporate laws and regulations have developed considerably since Ukraine's transition to a market economy. Some of these laws and regulations contain ambiguities, imprecisions and inconsistencies which make compliance with them difficult. As a result MHP's prior transactions may not have complied with all corporate formalities. In particular, MHP may not have complied with all the technical requirements of Ukrainian corporate law. Non-compliance with these applicable requirements may result in fines, warnings from governmental authorities, orders to remedy the violations, mandatory winding-up or reorganisation proceedings or requests to unwind a previous transaction. Although, to date, MHP has not received any notice of violation from any third party or governmental authority, and it does not expect that any party would seek to review or modify any of these transactions or challenge these irregularities, there can be no assurance that this will not occur in the future. Any successful challenge to prior transactions due to non-compliance with certain corporate laws could materially adversely affect MHP's business, results of operations and financial condition.

MHP may be subject to penalties imposed by the Antimonopoly Committee of Ukraine

MHP's business has grown substantially through the acquisition and establishment of companies incorporated and operating in Ukraine. Many of these acquisitions or formation of companies required the prior approval of the Antimonopoly Committee of Ukraine (the "AMC"). In recent years, the AMC has sought to increase business transparency and improve the competitive environment in Ukraine through changes to competition legislation and procedures for conducting investigations and through challenges to various anticompetitive practices. Applicable antitrust legislation restricts companies and individuals from directly or indirectly acquiring control over other companies without the prior approval of the AMC where certain financial thresholds are met. The failure to obtain necessary approvals for such transactions could subject MHP and all MHP's related entities (including its controlling shareholder, Yuriy Kosyuk) to fines in the amount of up to 5% of MHP's and its related entities' consolidated revenue in the year immediately preceding the year of imposition of the fine, for each failure to obtain necessary approvals, which may be material. If an acquisition led to a particular market becoming monopolistic or competition being significantly restricted on such market or part thereof, the AMC may seek the invalidation of such transactions by the Ukrainian courts, which in turn may lead to the compulsory divestment of the relevant companies. In practice, however, the AMC has never imposed this type of penalty, or imposed the maximum fine. If the AMC were to impose the maximum fine in 2010, it could amount to up to approximately U.S.\$36 million based on MHP's consolidated revenue in 2009.

The making of an inaccurate or incomplete filing to the AMC could also result in fines and, in the case of inaccuracy or omission that is substantial, could result in the relevant approval being annulled.

The filing by MHP or Mr. Kosyuk of an inaccurate and incomplete submission to the AMC in the past could result in the imposition of fines in an amount of up to 1% of MHP's consolidated revenue in the year immediately preceding the imposition of the fine. If the AMC were to impose a fine on the foregoing basis in 2010, it could amount to up to approximately U.S.\$7 million based on the amount of MHP's consolidated revenue in 2009. There can be no assurance regarding the future actions of the Ukrainian state authorities, and the laws and regulations in respect of such matters are vague in certain parts and subject to varying interpretations. Any penalties imposed by the AMC on MHP or Mr. Kosyuk could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP's operations may be limited by antitrust regulations

MHP is one of the leading producers of chicken in Ukraine with estimated domestic market share for industrially produced poultry of 43% by production volume in 2009 according to SCSU. Although MHP believes that its operations are in compliance with applicable Ukrainian antitrust regulations, there can be no certainty that MHP market shares will not result in the initiation of proceedings or investigations by the relevant antimonopoly authorities, including the AMC. If any proceedings or investigations were to result in adverse decisions against MHP, MHP could be prohibited from engaging in certain activities that are regarded as restricting competition and/or financial penalties could be imposed on MHP. Such prohibitions or financial penalties could have an adverse effect on MHP's business, financial condition or MHP's results of operations. In addition, any potential acquisition by MHP may be subject to closer scrutiny by the AMC, which may conclude that such acquisition would restrict competition in a given market and prohibit the acquisition. Such a decision could adversely affect MHP's ability to expand through acquisitions.

MHP may be subject to claims and liabilities under environmental, health, safety, sanitary, veterinary and other laws and regulations which could be significant

MHP's operations are subject to various environmental, health, safety, sanitary, veterinary and other laws and regulations, including those governing fire and labour safety, sanitary compliance, air emissions, solid waste and wastewater discharges and the use, storage, treatment and disposal of hazardous materials, such as disinfectants. The applicable requirements under these laws are subject to amendment, imposition of new or additional requirements and changing interpretations by governmental agencies or courts. In addition, MHP anticipates increased regulation by various governmental agencies concerning food safety, the use of medication in fodder formulations, the disposal of animal by-products and wastewater discharges. Furthermore, business operations currently conducted by MHP or previously conducted by others at property owned or operated by MHP, business operations previously conducted by MHP at property formerly owned or operated by MHP and the disposal of waste at third party sites expose MHP to the risk of claims under environmental, health and safety laws and regulations. MHP could incur material costs or liabilities in connection with claims related to any of the foregoing. The discovery of presently unknown environmental conditions, changes in environmental, health, safety and other laws and regulations, enforcement of existing or new laws and regulations, MHP's failure to successfully manage relations with local authorities and other unanticipated events could give rise to expenditures and liabilities, including the suspension, or the decommissioning of work and usage of the legal entity or its equipment and buildings, fines and/or penalties which could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP's current working practices could be affected by new legislation on animal protection

On 11 February 2010 Ukraine's Parliament adopted a draft law which made amendments to the Law of Ukraine "On Protection of Animals from Cruel Treatment" (the "**Draft Animal Protection Law**"), dated 21 February 2006. The Draft Animal Protection Law substantially widens the definition of what constitutes cruel treatment to animals, to include transporting animals in a way which may cause suffering and stress, and other actions which cause pain, mutilation, injury, suffering, stress or premature death. In addition, the Draft Animal Protection Law expressly prohibits the breeding of geese and ducks to obtain foie gras. The Draft Animal Protection Law does not, however, provide for any detailed rules governing the powers of state authorities to investigate alleged instances of cruel treatment to animals, nor does it provide for specific sanctions for persons found to have caused such treatment.

Although the Draft Animal Protection Law was vetoed by the President on 24 February 2010, it is still possible that the Parliament might vote to overrule this veto and this law would become effective. If this happens, it might be necessary for MHP to change its current working practices in order to comply with the new law, including the cessation of the production of foie gras, and the adoption of the Draft Animal Protection Law or any similar animal protection law could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation

MHP's business depends on the continuing validity of several licences, the issuance to it of new licences and/or permits and its compliance with the terms of its licences and/or permits and/or relevant legislation. In particular, MHP's poultry and cattle breeding operations depend on licences and/or permits for the production of pedigree incubatory eggs, birds and cattle.

Ukrainian law requires that companies which operate artesian wells of depths greater than 20 metres obtain permits for sub-soil use and permits for special water use. Although MHP is in compliance with the requirement for water use permits, none of the Group companies has obtained or holds a valid permit for sub-soil use. Although MHP intends to comply with this requirement, as of the date of this Offering Memorandum, MHP has not obtained all of the necessary permits. MHP could ultimately be penalised for such non-compliance with a suspension of its production facilities.

In addition, under Ukrainian legislation, MHP, as an operator of food production facilities, is required to obtain operational permits in respect of its facilities for the production of meat products, convenience foods and fodder. Ukrainian state authorities are authorised to suspend or revoke an operational permit if a particular facility does not comply with applicable sanitary and veterinary regulations. Although MHP believes that it has all the permits it needs and that there are no grounds for the revocation of its operational permits or that, in practice, it will be prevented from operating its facilities, as a strict legal matter, without such permits, MHP will not be permitted to produce, process, store or transport its meat products and fodder.

Under Ukrainian law, the implementation of new or refurbished production or other facilities, or the lease of any premises, without obtaining the relevant permits from the sanitary and epidemiological supervision authorities (“**Sanitary Approval on Operation**”) and the fire safety supervision authorities (“**Fire Permit**”) is prohibited. Certain MHP companies have no Sanitary Approval on Operation and Fire Permit. The violation of the above requirements may result in the suspension, or decommission of the legal entity or its equipment and buildings and/or (ii) the relevant authority may confiscate produced goods, equipment, and raw materials of the infringing MHP company. Under Ukrainian law fodder mills are required to obtain operational permits. Some of MHP’s fodder mills do not have such permits. While the law is unclear on this matter it is possible that fodder mills operating without operational permits may be ordered by the regional office of the State Department for Veterinary Medicine to suspend their operations until they obtain the operational permits. If MHP’s fodder mills are ordered to suspend their operations, MHP’s business, results of operations and financial condition could be materially adversely affected. Regulatory authorities exercise considerable discretion in the timing of licence and permit issuance and renewal and in the monitoring of compliance with the terms of licences and permits. In certain circumstances, state authorities in Ukraine may seek to interfere with the issuance of licences and permits, and the licensing and permitting process may also be influenced by outside commentary, political pressure and other extra-legal factors. Accordingly, there is a risk that licences or permits needed for MHP’s business may not be issued or renewed or that they may not be issued or renewed in a timely fashion or may be subject to onerous conditions.

If MHP is unable to obtain, maintain or renew necessary licences or permits, its business, results of operations and financial condition could be materially adversely affected. See “Business—Facilities and Properties—Licences and Permits”.

While MHP began operating the Myronivka chicken farm in October 2007, this farm was formally commissioned only in December 2007. Under Ukrainian law, until formally commissioned, newly constructed properties may not be operated. Violation of this requirement may subject MHP to fines in the amount of up to 10% of the cost of construction works. Management believes that the relevant Ukrainian authorities are unlikely to pursue this course of action based on previous practice in similar cases and given that the representatives of such authorities have subsequently approved the commissioning of the Myronivka chicken farm. However, if imposed, this fine could be significant, and MHP’s business, results of operations, financial condition and prospects could be materially adversely affected.

MHP’s business could be adversely affected if detrimental price controls are introduced for MHP’s key products

Under Ukrainian legislation, local state authorities may regulate prices of certain food products, including chicken meat, pork and beef. In particular, the local state authorities may from time to time oblige producers of certain food products, including chicken meat and beef, to obtain approval from the local officers of the State Prices Inspection before increasing the wholesale prices of such products by more than 1% in any given month. Furthermore, the Cabinet of Ministers of Ukraine introduced a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it limits the profit margin charged on such products. Management believes that the approach MHP uses for determining the wholesale prices for MHP’s products is in line with the formula established by the above procedure. If detrimental price controls are introduced for MHP’s key products or MHP fails to comply with the Ukrainian price regulation mechanism described above, its business, results of operations and financial condition could be materially adversely affected.

MHP's insurance coverage may be inadequate

MHP's insurance coverage may not adequately protect it from the risks associated with its business. The insurance industry is not yet well developed in Ukraine, and several forms of insurance protection common in more economically developed countries are not yet available in Ukraine on comparable terms or are not reasonably priced, including coverage for business interruption and the loss of a future grain harvest. MHP insures its principal assets against risk of loss or damage caused by fire, lightning, explosions, arson, natural disasters, water damage, burglary, robbery and mechanical failures. MHP also insures its vehicles against the risk of loss or damage and maintains mandatory statutory third party liability insurance. However, MHP does not have full coverage against loss of, or damage to, some of its plant and equipment or losses arising from the interruption of its business. MHP does not have any insurance coverage in respect of any losses it may incur as a result of an outbreak of bird flu or any other disease. See “—Outbreaks of bird flu and other diseases could have a material adverse effect on MHP's business”. Also, MHP does not maintain insurance coverage for the loss of future grain harvest at some of its grain growing facilities, nor does it maintain product liability insurance with respect to products of animal origin nor cover for the use of pesticides and agrochemicals. In addition, there is no guarantee that MHP will be able to obtain insurance on economically viable terms. If MHP is unable to obtain insurance coverage in respect of particular risks, it will be forced to cover any losses or third-party claims out of its own funds. MHP does not currently maintain separate funds or otherwise set aside reserves to cover such losses or third-party claims. If MHP were to suffer a loss that is not adequately covered by insurance, its business, results of operations, financial condition and prospects could be materially adversely affected. See “Business—Insurance”.

MHP's intragroup transactions and other related party transactions are subject to Ukrainian transfer pricing regulations

Ukrainian transfer pricing rules, which became effective in 1997, require that prices between related parties and, under certain circumstances, between unrelated parties be set on an arm's length basis. Ukrainian tax authorities may make transfer pricing adjustments and impose additional tax liabilities in respect of transactions between related parties and, as applicable, unrelated parties if the transaction prices differ from market prices. The Ukrainian transfer pricing rules are vaguely drafted and leave a wide scope for interpretation by Ukrainian tax authorities and commercial courts. In addition, to date, there has been only limited guidance as to how these rules are to be applied. Moreover, in the event a transfer pricing adjustment is assessed by Ukrainian tax authorities, the Ukrainian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. Pending the adoption of relevant legislation, the right of the Ukrainian tax authorities to make transfer pricing adjustments may be challengeable. In particular, under applicable Ukrainian corporate income tax legislation, such adjustments can be made only pursuant to a procedure, which has not yet been adopted in law.

There have been and continue to be a significant number of transactions between companies within the MHP group, as well as with other parties related to MHP. In addition, in the past MHP engaged in transactions with companies it later acquired. It is not always possible to determine an appropriate market price for such transactions, and the Ukrainian tax authorities' view as to what constitutes a market price may differ from that adopted by MHP. As a result, there can be no assurance that the Ukrainian tax authorities will not challenge the prices for these transactions and propose adjustments. If such price adjustments are implemented, MHP's effective tax rate could increase and its future financial results could be materially adversely affected. In addition, MHP could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

MHP may be limited in its ability to obtain full ownership rights to land

MHP's ability to obtain full ownership rights to agricultural land plots it currently leases is limited by an effective moratorium on sales of agricultural land currently in force in Ukraine. If this moratorium is lifted, MHP would consider acquiring ownership of land, including to the land plots it currently leases, which it may be able to purchase pursuant to existing pre-emptive rights. However, there can be no assurance that the owners of these land plots would agree to sell their land to MHP on commercially acceptable terms or at all. In addition, any material changes to existing laws and regulations on land ownership could limit MHP's ability to obtain full ownership rights to relevant land plots. Furthermore, MHP may face increasing competition for suitable land plots from other companies operating in the

Ukrainian agro-industrial sector, which may result in higher prices for land. Under Ukrainian law MHP is entitled to continue using land under a lease if the owner of the relevant land plot changes, unless otherwise provided in the lease agreement however a new owner may be less likely to sell under the lease purchase option or renew the lease on expiry. Any inability by MHP to secure ownership rights to suitable land plots either at commercially acceptable terms or at all could materially adversely affect MHP's business, results of operations, financial condition and prospects.

MHP has multiple leases, its rights to its land plots may be challenged, and MHP may not be able to renew its lease agreements

MHP leases all the land plots on which it grows grain. In aggregate, MHP leases approximately 180,000 hectares of land for its operations, of which approximately 150,000 hectares are used in the grain growing segment for grain production, approximately 27,000 hectares are used in the other agricultural segment primarily for fruit orchards, as pasture for cattle and pigs and to grow grain for fodder for cattle and pigs, and approximately 3,000 hectares are used by the poultry and related operations segment. The majority of MHP's agricultural land plots are leased from a large number of private individual lessors, while the remaining land plots are leased from local authorities. Management believes that the average size of a land plot leased by MHP from individual lessors is two hectares. This gives rise to a significant administrative burden and a number of legal risks, including a risk of fragmentation of MHP's land bank if it is unable to continue to lease land from its contiguous individual lessors. Any challenge to the validity or enforceability of MHP's rights to land plots it currently leases or may lease in the future may result in the loss of the respective lease rights. Furthermore, certain leases may not contain all of the mandatory provisions required under Ukrainian law. This creates a risk that the validity of such lease agreements may be invalidated by a court.

In addition, MHP's land lease agreements are entered into for varied periods of time, ranging from one to 50 years. Although under Ukrainian law MHP has a pre-emptive right to extend the term of a lease agreement upon its expiry, subject to MHP's compliance with the terms of original lease, the lessors' willingness to continue leasing the land and the absence of any other potential lessees offering better terms, there can be no assurance that all lease agreements will be renewed upon their expiration. In addition, Ukrainian legislation requires the lease rights to land plots held in state or municipal ownership to be allocated through an auction unless there are buildings owned by the lessee on the relevant land plot. Any loss by MHP of its lease rights to land plots could adversely affect MHP's business, results of operations, financial condition and prospects.

The payments under MHP's land lease agreements may increase

Under Ukrainian legislation, the parties to a lease agreement are generally free to determine the amount of payments under a land lease agreement. However, the lease payments in respect of agricultural land held in state or municipal ownership may not be lower than the land tax in respect of the relevant land plot, calculated as a percentage of the appraised value of a particular land plot. The appraised value of land plots is reviewed by Ukrainian authorities on an annual basis. Following such review, state or municipal lessors are entitled under Ukrainian law to unilaterally increase the lease payments in respect of the relevant land plot pro rata to the new value of such plot. Any increase of the land lease payments above MHP's current expectations could materially adversely affect MHP's business, results of operations, financial condition and prospects.

MHP is exposed to operational risks

MHP is exposed to operational risks, including the risk of equipment breakdown or failure or injury to or death of personnel. In particular, MHP's manufacturing processes depend on certain critical items of equipment, including fodder production lines, hatchers, processing lines, and sorting and packing machines, and this equipment may, on occasion, be out of service as a result of unanticipated failures. MHP may experience material shutdowns of its production facilities or periods of reduced production as a result of such equipment failures. MHP may also be subject to interruptions in production related to catastrophic events, such as fires, explosions or natural disasters. MHP maintains certain controls designed to decrease its operational risk, but does not maintain business interruption insurance. Any interruptions in its production capability may require MHP to incur significant expenses to remedy the situation, which could materially adversely affect MHP's business, results of operations, financial condition and prospects.

The Issuer may become tax resident in a jurisdiction other than Luxembourg

The Issuer is incorporated in Luxembourg and is currently considered Luxembourg resident for tax purposes. Generally, in order to maintain Luxembourg tax residence, management and control of the Issuer must take place in Luxembourg. If management and control of the Issuer were to be conducted in a jurisdiction other than Luxembourg, the existing tax residence of the Issuer could be jeopardised. Consequently, the Issuer must meet all applicable requirements for Luxembourg tax residence under Luxembourg tax legislation and the provisions of its Articles. Under these requirements, the Board of Directors should not be comprised of a majority of individuals who are resident for tax purposes in a single jurisdiction other than Luxembourg and all strategic or significant operational decisions or resolutions of the Board of Directors should be made in Luxembourg.

If management and control of the Issuer takes place in another jurisdiction, or strategic or significant operational decisions or other management activities take place in that jurisdiction, the Issuer may be subject to tax in that other jurisdiction. Whether this is the case will depend upon the tax laws of that other jurisdiction and, in certain cases, the impact of any tax residence “tie-breaker” provision in any double tax treaty between Luxembourg and that jurisdiction. Taxation of the Issuer in a jurisdiction other than Luxembourg could materially adversely affect the Issuer’s financial condition and prospects.

Changes in the application or interpretation of the Cypriot tax system or in the double tax treaty between Ukraine and Cyprus or a Cypriot subsidiary of the Issuer becoming tax resident in a jurisdiction other than Cyprus

All of the Issuer’s subsidiaries are held indirectly through the Issuer’s wholly-owned subsidiary RHL, which is incorporated in Cyprus. The Issuer also has a wholly-owned investment subsidiary, Eledem Investments Limited, which is incorporated in Cyprus. Cyprus became a member of the European Union on 1 May 2004, as a result of which it has harmonised its legislation with European Union directives and guidelines and has reformed its tax system. Moreover, as a result of its accession to the European Union, Cyprus will adhere to decisions of the European Court of Justice and any amendments to, or newly introduced, European Union directives with respect to taxation. Such judicial decisions and legislative changes may adversely affect the tax treatment of MHP’s Cypriot subsidiaries and of transactions with such Cypriot companies.

In addition, in accordance with Cypriot income tax laws, a company is tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes management and control. MHP has received advice that the Cyprus tax authorities follow the OECD model convention with respect to taxes on income and capital, which refers to a “place of effective management”. The commentary on that model convention states: “The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity’s business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time”. Based on this definition, management and control may be considered to be exercised where the board of directors of a company meets and makes decisions. Management believes that the Issuer’s Cypriot subsidiaries meet these criteria and can be considered Cyprus tax residents. A company that is tax resident in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the double tax treaty between the Government of the Union of Soviet Socialist Republics and the Government of Cyprus, dated 29 October 1982, to which Ukraine is a successor and which is still applied in Ukraine (the “**Double Tax Treaty**”). In addition, an EU parent company may be able to claim tax benefits under European Union tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

In the event the tax residency of a company incorporated in Cyprus is challenged, such Cypriot company would be required to establish that it is managed and controlled from Cyprus. If the tax residency of any of the Issuer’s Cypriot subsidiaries, including RHL, were to be challenged and it was held that such Cypriot subsidiary had failed to observe the Cyprus tax residence requirements of, or such company was unable to ensure or establish that it qualified as, a Cypriot tax resident, such company could be subject to tax in its place of tax residency wherever that might be and would be unable to make use of the Cypriot tax treaty network. If the relevant Cypriot company is not tax resident in a Member State, tax benefits under

the EU tax directives referred to above may be restricted or eliminated. In addition, if management and control of the relevant Cypriot company takes place in another jurisdiction, or strategic or significant operational decisions or other management activities take place in that jurisdiction, the relevant Cypriot company may be subject to tax in that other jurisdiction. Whether this is the case will depend upon the tax laws of that other jurisdiction and, in certain cases, the impact of any tax residence “tie-breaker” provision in any double tax treaty between Cyprus and that jurisdiction.

There can be no assurance that the Double Tax Treaty between Cyprus and Ukraine will not be renegotiated. On 16 January 2008, the Cabinet of Ministers of Ukraine authorised the Ukrainian Ambassador in the Republic of Cyprus to sign a new Convention between the Government of Ukraine and the Government of the Republic of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “**Convention**”). In contrast to the currently effective Double Tax Treaty, which exempts dividends, capital gains, interest payments, and royalty payments from Ukrainian withholding tax, under the proposed Convention, dividends paid by JSC MHP to its Cyprus parent company would be taxable at source in Ukraine at 5% of the gross amount of dividends. The proposed Convention also provides for taxation at source in Ukraine of interest at 10% of the gross amount of the interest if the beneficial owner of the interest is a resident of Cyprus.

Adverse changes in the application or interpretation of Cypriot tax law, or in the Double Tax Treaty or a finding that a subsidiary of the Issuer that is incorporated in Cyprus does not qualify as a Cypriot tax resident or for tax treaty based benefits, or is subject to tax in another jurisdiction, may significantly increase MHP’s tax burden, including its interest expenses and adversely affect MHP’s business, results of operations, financial condition and prospects.

The Issuer is a holding company and is therefore financially dependent on receiving distributions from its subsidiaries

The Issuer is a holding company and all of its operations are conducted through its subsidiaries. Consequently, it relies on dividends or advances from its subsidiaries, including subsidiaries that are not wholly-owned. The ability of these subsidiaries to pay dividends, and MHP’s ability to receive distributions from its investments in other entities are subject to applicable laws and other restrictions. In addition, such dividends and distributions may be subject to withholding and other taxes which may lead to double taxation or other costs to MHP. These laws, restrictions, taxes and costs could limit the payment of dividends and distributions, which could restrict MHP’s ability to fund the operations, which could have a material adverse effect on MHP’s business, results of operations, financial condition and prospects.

Dividends paid by Ukrainian subsidiaries will be taxed by way of Advance Corporate Income Tax (“**Advance CIT**”) in Ukraine. Advance CIT is charged on the dividend amount subject to distribution at the rate of 25% and is due prior to or at the time of the payment of the distribution. The paid Advance CIT may be offset against future corporate income tax liabilities of the Ukrainian subsidiaries and may be carried forward to future tax periods without limitation. Currently, a number of MHP’s subsidiaries are subject to a special regime of taxation applicable to producers of agricultural products and pay FAT instead of corporate income tax (See “—As a producer of agricultural products MHP currently benefits from tax exemptions which could be discontinued”). The Advance CIT is also applicable to MHP’s subsidiaries that pay FAT, however, unlike payers of the corporate income tax, they will not be able to offset the Advance CIT against future corporate income tax liabilities and, as a result, the Advance CIT becomes a cost for such subsidiaries.

As all of the Issuer’s subsidiaries are held indirectly through the Issuer’s wholly-owned subsidiary RHL, which is incorporated in Cyprus, the ability of the Issuer to obtain dividends depends on the ability of RHL to obtain dividends from its Ukrainian subsidiaries. The payment of dividends to RHL by its Ukrainian subsidiaries is subject to a number of procedural requirements. RHL’s Ukrainian subsidiaries may only pay dividends to RHL through an investment account or a broker’s account in Ukraine in hryvnia. RHL, in turn, is required to submit documents evidencing its investment in shares of its Ukrainian subsidiaries in order to convert the dividends into U.S. dollars or Euro and transfer them outside Ukraine. As a general rule, a 15% Ukrainian withholding tax is withheld at source in Ukraine on payments of dividends to RHL, unless RHL is entitled to the benefits of the Double Tax Treaty.

The dividends distributed to RHL by a Ukrainian subsidiary will be exempt from withholding tax if RHL satisfies the procedural requirements of the Ukrainian tax legislation, namely, by providing the Ukrainian tax authorities with a tax residency certificate attesting to the RHL’s tax residency in Cyprus. There can be no assurance that further restrictions on the payment of dividends to a non-Ukrainian

shareholder will not be applied in Ukraine in the future. See also “—Changes in the application or interpretation of the Cypriot tax system or in the double tax treaty between Ukraine and Cyprus or a Cypriot subsidiary of the Issuer becoming tax resident in a jurisdiction other than Cyprus” above.

Risks Relating to Ukraine

The Guarantors and the significant subsidiaries of the Issuer are Ukrainian companies and their assets are located in Ukraine. Investments in Ukraine carry certain region-specific risks. Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. Concurrently with this transformation, Ukraine is changing from a centrally-planned to a market-based economy and its achievements in this respect have been recognised by the EU, which gave Ukraine market economy status at the end of 2005 and the United States, which also granted Ukraine such status in February 2006. In May 2008 Ukraine joined the WTO. Although some progress has been made since independence towards reforming Ukraine’s economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to supporting market institutions, the effective transition to a market economy and broad-based social and economic reforms. The pace of economic, political and judicial reforms has been adversely affected by political instability caused by continuing disagreement among the Government, the Parliament and the President of Ukraine. Furthermore, the Ukrainian economy has recently been negatively affected by the global financial downturn, a slowdown in the real economy, a failing financial sector, a significant devaluation of the hryvnia against the U.S. dollar and Euro and an increase in energy prices. Set forth below is a brief description of some of the risks incurred by investing in Ukraine.

Investments in emerging market countries such as Ukraine carry risks not typically associated with risks in more mature markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine’s are subject to rapid change and that some or all of the information set out in this Offering Memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets such as Ukraine is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in Ukraine. Moreover, financial turmoil in any emerging market tends to adversely affect prices in debt and equity markets of all emerging markets as investors move their money to more stable developed markets. In the second half 2008, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies dampened foreign investment in Ukraine, resulting in an outflow of capital and an adverse effect on the Ukrainian economy. In addition, Ukraine may become subject to heightened volatility due to regional economic, political or military conflicts. As a consequence, an investment in Ukraine carries risks that are not typically associated with investing in more mature markets.

These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Offering Memorandum.

Official economic data and third party information may not be reliable

Although a range of government ministries, along with the NBU and the SCSU, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine’s gross domestic product (“GDP”) and many other aggregate figures cited in this document may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this document, data are presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the International Monetary Fund (the “IMF”). Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF’s Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy

may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the information and figures presented in this document have not been restated to reflect such inflation and, as a result, period to period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified. MHP accepts responsibility only for the correct extraction and reproduction of such information.

Political and social conflicts or instability could create an uncertain operating environment

In recent years Ukraine has undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy. However, this process of economic transition is not complete.

Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster liberalisation, privatisation and financial stability.

The current Parliament was elected at the parliamentary elections held on 30 September 2007. In December 2007, the new Parliament appointed Yuliya Tymoshenko as the Prime Minister of Ukraine and endorsed the coalition Government formed by Blok Nasha Ukrayina—Narodna Samooborona (Our Ukraine-People’s Self Defense Bloc) and Yuliya Tymoshenko’s Bloc. In September 2008, Our Ukraine-People’s Self Defense Bloc announced its withdrawal from the majority coalition, and Speaker of Parliament Arseniy Yatsenyuk officially announced the termination of the majority coalition. On 9 October 2008, the President issued a decree dissolving the Parliament and designating 7 December 2008 as the date for new parliamentary elections. However, this decree was challenged in court and cancelled by a subsequent decree by the President. In December 2008, the Parliament elected its new Speaker, Volodymyr Lytvyn, and a new majority coalition was formed comprising three parliamentary factions: Our Ukraine-People’s Self Defense Bloc, Yuliya Tymoshenko’s Bloc and the Volodymyr Lytvyn Bloc.

The first round of the recent presidential elections was held on 17 January 2010, however, no candidate won 50% or more of the popular vote and the two highest polling candidates, Victor Yanukovych, leader of Partiya Regioniv (the Party of Regions), and Yuliya Tymoshenko, leader of Yuliya Tymoshenko’s Bloc, took part in the second round of elections. Following the results of the second round held on 7 February 2010, Victor Yanukovych won the presidential race by a simple majority. Although Yuliya Tymoshenko initially contested, Victor Yanukovych was inaugurated as President of Ukraine on 25 February 2010.

On 3 March 2010 the then incumbent Prime Minister Yuliya Tymoshenko was voted out of the Government following a vote of no confidence by the Parliament. On 11 March 2010, factions of the Party of Regions, the Volodymyr Lytvyn Bloc, the Communist Party of Ukraine and several other deputies formed a new parliamentary coalition consisting of 235 deputies. On the same day, the Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister of Ukraine and endorsed the new members of the Government. Currently, the Government consists mainly of members of the President’s Party of Regions, with a few positions being occupied by representatives of other political parties.

In March 2010, two applications have been submitted to the Constitutional Court of Ukraine by two groups of members of the Parliament, one of which requested an official interpretation, while the other questioned the constitutionality of certain provisions of the Law of Ukraine “On regulations of the Verkhovna Rada of Ukraine” (the “**Parliament Regulations Law**”) dated 10 February 2010 in the context of the ability of individual deputies (as opposed to parliamentary factions) to take part in the formation of the majority coalition in the Parliament. On 6 April 2010, the Constitutional Court of Ukraine ruled in its decision that the provisions of the Parliament Regulations Law and the Constitution of Ukraine should be interpreted as allowing individual deputies to join the majority coalition. This decision of the Court, however, was issued in response to the request for an official interpretation of the provisions of the Parliament Regulations Law, and the Court has not expressly opined on the constitutionality of such provisions in its decision. Accordingly, no assurance can be given that the Court will not declare the relevant provisions of the Parliament Regulations Law unconstitutional in response to the submission of the second group of parliamentarians in future. Such outcome may result in further political upheaval and instability in Ukraine.

As at the date of this Offering Memorandum, relations between the President, the Government and Parliament, as well as the procedures and rules governing the political process in Ukraine, including formation and dissolution of a coalition and of factions, remain in a state of uncertainty and may be subject to change through the normal process of political alliance-building or, if the required action is taken, through constitutional amendments and decisions of the Constitutional Court of Ukraine.

Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences.

A number of factors could adversely affect political stability in Ukraine. These could include failure to form or maintain a stable Government; lack of agreement within the factions and deputies that form a governing coalition; court action taken by opposition parliamentarians against decrees and other actions of the President or Government; or court action by the President against Parliamentary or Governmental resolutions or actions. If political instability continues or heightens, it could have negative effects on the Ukrainian economy and, as a result, materially adversely affect MHP's business, results of operations, financial condition and prospects.

Economic instability in Ukraine could harm the Group's business, results of operations, financial condition and prospects.

In recent years the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight and low (but rising) wages for a large portion of the Ukrainian population.

Although Ukraine made significant progress in 2007 and 2008 in increasing its GDP prior to the global economic downturn, increasing real wages and improving its trade balance, the political instability and the global financial and economic crisis have compounded the more recent negative effects on key economic indicators of the global economic downturn.

The Ukrainian economy grew at an average of approximately 7.0% each year between 2000 and 2007. This growth was driven mainly by a rapid increase in foreign demand, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in those years, these factors made the Ukrainian economy overly vulnerable to adverse external shocks. Thus, as the global economic and financial situation started to deteriorate, Ukraine's economy was one of the most heavily affected by the downturn. The negative impact of these factors has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Government has generally been committed to economic reform, the implementation of reform has been impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector, and removal of exemptions and privileges for certain state owned enterprises or for certain industry sectors.

As a result, according to the SCSU, the rate of inflation for the past two years was 12.3% in 2009 and 22.3% in 2008. The rate of inflation for February 2010 was 3.7%. In the fourth quarter of 2008, Ukraine's GDP declined by 8.0% as compared to the same period in 2007. In 2009, Ukrainian GDP decreased by 20.2% in the first quarter of the year, 17.8% in the second quarter of the year, 16.0% in the third quarter of the year and as a preliminary estimate by the SCSU, 6.8% in the fourth quarter of the year, each as compared to the corresponding periods in 2008. In September 2009, the Government approved its forecast for Ukraine's economic and social development for 2010. This forecast estimated Ukraine's GDP growth to be 3.7% in 2010 while the rate of inflation is expected to be 9.7% in 2010.

The negative trends in the Ukrainian economy may continue while commodity prices on the external market remain low and access to foreign credit is limited, unless Ukraine undertakes certain important economic and financial structural reforms. Failure to achieve the political consensus necessary to support and implement such reforms could adversely affect the country's macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Offering Memorandum will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring

privatisation, industrial restructuring and administrative reform may have negative effects on the economy, generally, and, as a result, on MHP's business, results of operations, financial condition and prospects.

In addition, the current global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The crisis has prompted the government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could have a material adverse effect on the Ukrainian economy.

The Ukrainian currency is subject to volatility and depreciation

In view of the high dollarisation of the Ukrainian economy and increased activity of Ukrainian borrowers on external markets in 2005-2007, Ukraine has become increasingly exposed to the risk of hryvnia exchange rate fluctuations. Since September 2008, the interbank U.S. dollar/hryvnia exchange rate has fluctuated significantly. In 2008, the hryvnia depreciated against the dollar by 52.5% and against the Euro by 46.3% as compared to year-end 2007, and further depreciated against these currencies in 2009 by 3.7% and 5.5%, respectively. The NBU sought to address the hryvnia instability by taking administrative measures (including certain foreign exchange market restrictions), and used approximately U.S.\$15.3 billion of its foreign exchange reserves to support the Ukrainian currency in the last quarter of 2008 and in 2009. The official exchange rate was UAH 7.93 to U.S.\$1.00 as at 31 March 2010. The fluctuations in the U.S. dollar and Euro/hryvnia exchange rate have negatively affected the ability of Ukrainian borrowers to repay their indebtedness to Ukrainian banks (more than 50% of the domestic loans are denominated in foreign currency) as well as to external lenders.

The Ukrainian currency may depreciate further in the near future, given the absence of significant currency inflow from exports and foreign investment, limited foreign currency reserves, as well as the need for borrowers to repay a substantial amount of short-term external private debt (estimated by the NBU to be approximately U.S.\$19.7 billion as at 1 January 2010) as well as requirements to pay a substantial amount of foreign currency for energy supplies from Russian and the rest of the CIS. Any further currency fluctuations may negatively affect the Ukrainian economy and the Group's business.

Social instability could have political and economic consequences and affect the value of investments in Ukraine

The failure of the Ukrainian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits in Ukraine generally to keep pace with the rapidly increasing cost of living have previously led, and could again lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign ownership in the Ukrainian economy, and possibly violence. Any of these events could adversely affect the Group's business, financial condition and operational results.

Ukraine's physical infrastructure is in a poor condition, which may lead to disruptions in the Group's business or an increase in its costs

Ukraine's physical infrastructure, including its power generation and transmission and communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure has an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a materially adverse effect on the Group's business, financial condition and operational results.

Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget

Ukraine's internal debt market remains illiquid and underdeveloped as compared with markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the

second half of 2002, loans from multinational organisations such as the European Bank for Reconstruction and Development (“EBRD”), the World Bank, the European Union and the IMF comprised Ukraine’s only significant sources of external financing.

From 2003 until 2008, the international capital markets were Ukraine’s main source of external financing but they ceased to be available from mid-2008 due to the global economic and financial crisis. As a result, Ukraine sought IMF financing. In November 2008, the IMF approved a two-year Stand-By Arrangement (“SBA”) with Ukraine for approximately U.S.\$16.4 billion to assist the Ukrainian Government in restoring financial and economic stability. The drawdowns of IMF financing are contingent upon Ukraine’s satisfaction of requirements including:

- reducing the budget deficit by imposing additional taxes and taking other non-tax measures;
- introducing a comprehensive approach to budget and fiscal sector management;
- strengthening the independence of the NBU as the principal regulator in the banking sector and developing and implementing a comprehensive bank refinancing and restructuring programme; and
- bringing domestic natural gas prices in line with international market prices.

According to the official IMF statements issued upon the second review of Ukraine’s economic performance under the SBA in July 2009, which was followed by the release of the U.S.\$3.3 billion third tranche of the IMF financing, Ukraine’s authorities have succeeded in cutting down on non-priority expenditures and have taken a number of measures to restore viability of the natural gas sector. At the same time, IMF stressed that further fiscal measures and structural reforms should be implemented to ensure fiscal sustainability and restore confidence in the banking system. As at the date of this Offering Memorandum, the total disbursements under the SBA amounted to approximately U.S.\$10.6 billion.

If the international capital markets or syndicated loan markets continue to be unavailable to Ukraine, it would have to further rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. Additionally, Ukraine has indicated that, as part of its debt management policy, it plans to develop the internal debt market and to reduce its reliance on external debt financing. However, reliance on internal debt and unavailability of external financing may place additional pressure on Ukraine’s ability to meet its payment obligations.

External borrowings from multilateral organisations such as the IMF, the EBRD, the World Bank or the EU may be conditional on Ukraine’s satisfaction of certain requirements, which may include, amongst other things, implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas. If Ukraine is unable to resort to the international capital markets or syndicated loan markets, a failure by official creditors and of multilateral organisations to grant adequate financing could put pressure on Ukraine’s budget and foreign exchange reserves.

Ukraine’s economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy

Ukraine’s economy depends heavily on its trade flows with Russia and the rest of the CIS, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy-related exports through Russia). In addition, a large share of Ukraine’s services receipts comprise transit charges for oil, gas and ammonia from Russia.

Ukraine therefore considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia continue to remain strained due to factors including:

- disagreements over the prices and methods of payment for gas delivered by the Russian gas supplier OJSC Gazprom (“Gazprom”) to, or for transportation through, Ukraine;
- unresolved issues relating to the stationing of the Russian Black Sea Fleet (*Chernomorskyi Flot*) in the territory of Ukraine; and
- a Russian ban on imports of meat and milk products from Ukraine and anti-dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods.

Russia has recently and in the past, threatened to cut off the supply of oil and gas to Ukraine transported through Russia in order to apply pressure on Ukraine to settle outstanding gas debts and

maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, reportedly due to the failure by National Joint-Stock Company “Naftogas of Ukraine” (“**Naftogas**”), the Ukrainian state-owned oil and gas company, to timely repay all outstanding debts owed to Gazprom for natural gas supplied to Ukraine for domestic consumption in 2008. Following negotiations between the governments of Russia and Ukraine and the signing of agreements between Naftogas and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, Gazprom on 20 January 2009 resumed natural gas supplies to Ukraine and Western Europe.

Prices for natural gas supplied by Gazprom for domestic consumption in Ukraine increased in each of 2006, 2007 and 2008 from U.S.\$50 per 1,000 cubic metres as of 1 January 2005 to U.S.\$179.5 per 1,000 cubic metres as of 1 January 2008. Pursuant to the recent agreements signed between Naftogas and Gazprom on 19 January 2009 for natural gas supplies and transit in 2009 through 2019, a price for natural gas supplied to Ukraine for domestic consumption and a tariff for the transit of natural gas through the territory of Ukraine is to be determined pursuant to formulas set out in the agreements. The average annual price for natural gas supplied for domestic consumption in Ukraine in 2009 was approximately U.S.\$228.0 per 1,000 cubic metres. Recent press reports indicate that Ukraine and Russia have provisionally agreed to resolve various outstanding issues, including lowering of gas prices and the extension to the permission to station the Russian Black Sea Fleet.

Currently, approximately 20% of Ukrainian exports of goods go to Russia, while much of Russia’s exports of energy resources to the EU are delivered via Ukraine. Russia’s increases in the price for natural gas have adversely affected the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on imports of energy resources from Russia. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and the modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and the modernisation of production facilities, there can be no assurance that these reforms will be implemented successfully.

Political relations between Russia and Ukraine, which have become further strained in 2009, may adversely affect economic relations between the two countries. In August 2009, the presidents of the Russian Federation and Ukraine exchanged letters with regard to the most crucial issues affecting Ukraine-Russia relations, such as Ukraine’s intention to join the North Atlantic Treaty Organisation (“**NATO**”) and to cooperate more closely with the EU, Ukraine’s support of Georgia in the recent conflict between Georgia and Russia, and efforts taken by the Ukrainian Government to revise the history of relations between Ukraine and Russia.

Although following the recent election of President Yanukovich, Ukraine’s relations with Russia are generally expected to improve, if bilateral trade relations were to deteriorate, if Russia were to stop transiting a large portion of its oil and gas through Ukraine or if Russia halted supplies of natural gas to Ukraine, Ukraine’s balance of payments and foreign currency reserves could be materially and adversely affected. Any further adverse changes in Ukraine’s relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine’s revenues derived from transit charges for Russian oil and gas, may have negative effects on the Ukrainian economy as a whole and thus on MHP’s business, results of operations, financial condition and prospects.

Any deterioration in Ukraine’s relationships with western governments and institutions may have a material adverse effect on the Ukrainian economy and the Group’s business, financial condition and operational results

Taking into account its geographical position and history, Ukraine’s closest relationships are with the Russian Federation and Poland. Significant relations have also been developed with EU countries (including Germany, Hungary, Slovakia and Romania) and CIS countries (including Belarus), as well as Georgia and Turkey.

Ukraine continues to pursue the objectives of achieving a closer relationship with NATO and the EU, and joined the WTO on 16 May 2008. With effect from 30 December 2005, Ukraine was given market economy status by the EU, though without any immediate prospect of EU membership for Ukraine. Any eventual accession of Ukraine to NATO may require a national referendum held after Ukraine has fulfilled all pre-accession formalities. Any major changes in Ukraine’s relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, could have negative effects on the Ukrainian economy as a whole and thus on MHP’s business, results of operations, financial condition and prospects.

A failure to develop relations with the EU might have negative effects on the Ukrainian economy and the Group's business, financial condition and operational results

Ukraine continues to develop its economic relationship with the EU. In 2008, the EU was the largest external trade partner of Ukraine importing goods and services from Ukraine amounting to U.S.\$22.2 billion (28.2% of Ukraine's total exports of goods and services), and exporting goods and services to Ukraine amounting to U.S.\$32.7 billion (35.5% of Ukraine's total imports of goods and services). In the nine months ended 30 September 2009, against the background of the global economic downturn, the EU remained the largest external trade partner of Ukraine with its share in the total foreign trade turnover of Ukraine amounting to about 31.0% (exports of goods and services from Ukraine to the EU amounted to approximately U.S.\$8.6 billion, and imports of goods and services from the EU to Ukraine amounted to approximately U.S.\$13.0 billion).

European Union imports from Ukraine are to a large extent liberalised, apart from certain steel products, the import of which is subject to European Union quantitative restrictions, and metal scrap, on which Ukraine levies export duties. A significant proportion of Ukrainian goods entering the European Union market benefits from the General System of Preferences.

In return for effective implementation of political, economic and institutional reforms, Ukraine and other neighbouring countries should be offered the prospect of gradual integration with the EU's internal market, accompanied by further trade liberalisation. Ukraine's accession to the WTO created the necessary preconditions for the launch of formal negotiations for introduction of a free trade area ("FTA") with the EU. In ten rounds of negotiations on the FTA held between Ukraine and the EU from 2008 to March 2010, the parties achieved progress in harmonisation of, among others, the following areas: trade in goods (including in relation to instruments of trade protection, tariffs, technical barriers in trade, sanitary and customs issues), intellectual property, rules relating to origin of goods, sustainable development and trade, trade in services, and public procurement.

Given that MHP is considering exporting its products to the EU, MHP would benefit from a strong relationship between the EU and Ukraine. Should Ukraine fail to develop its relations with the European Union or should such developments be protracted, it may have negative effects on the Ukrainian economy and, consequently, adversely affect the Group's business, financial condition and operational results and impose risks associated with MHP's further development and growth plans.

Dependence on external sources of financing may have a material adverse effect on the Ukrainian economy

Ukraine's internal debt market remains illiquid and underdeveloped as compared to markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the IMF, the EBRD, the World Bank and the EU comprised Ukraine's only significant sources of external financing.

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the IMF) to GDP has decreased from approximately 1.7% as at 31 December 2005 to approximately 1.4% as at 31 December 2006 and approximately 0.9% as at 31 December 2007 and is estimated to further decrease to 0.8% by the end of 2008, based on official government sources as of 1 April 2010. Total government external debt servicing (excluding payments to the IMF) was approximately U.S.\$1.5 billion in each of 2005 and 2006, U.S.\$1.2 billion in 2007 and is estimated to be approximately U.S.\$0.9 billion in 2008, based on official government sources as of 1 April 2010.

In 2005, the World Bank and Ukraine entered into five facility agreements for the implementation of systemic and investment projects, the aggregate amount of which totalled approximately U.S.\$716 million. Further, in June 2006, the World Bank approved a U.S.\$150 million loan for the "Access to Financial Services Project for Ukraine" (which aimed to increase access to financial services in rural areas) and in July 2006, the World Bank approved another U.S.\$154.5 million loan for the "Second Export Development Project for Ukraine" (which aimed to support export and real sector growth in Ukraine by providing working capital and investment finance to Ukrainian private exporting enterprises and to develop financial intermediation in the Ukrainian banking sector). In August 2007, the World Bank approved two loans to Ukraine in the amounts of U.S.\$200 million and U.S.\$140 million aimed at the improvement of power supply and urban infrastructure in Ukraine. In December 2007, the World Bank approved an additional

loan as part of the “Second Development Policy Loan Project” in the amount of U.S.\$300 million, and in January 2008, the World Bank approved a loan in the amount of U.S.\$50 million aimed at strengthening operational efficiency and transparency of public financial management in Ukraine. Additionally, in April 2009, the World Bank approved a U.S.\$400 million loan for the “Roads and Safety Improvement Project in Ukraine” (which aimed to improve the condition and quality of sections along the M-03 road, and increase traffic safety on roads) and, in November 2009, the World Bank approved a loan in the amount of U.S.\$60 million aimed to improve the operational stability and reliability of Ukraine’s power supply by increasing the regulating capacity, efficiency and the safety of hydroelectric plants.

Consequently, until the international capital markets or syndicated loan markets are fully available to Ukraine, the Government will have to continue to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings may be conditional on Ukraine’s satisfaction of certain requirements, which may include, amongst other things: implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas.

From 2003 through the beginning of 2008, international capital markets were Ukraine’s main source of external financing. However, since the second half of 2008 prospects for raising new financing on international capital markets have worsened substantially. Following downgrades of Ukrainian credit ratings in 2008, in February 2009, Fitch and Standard and Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) revised their long-term foreign currency sovereign credit ratings on Ukraine to B (negative) and CCC+ (negative), respectively, and in May 2009 Moody’s downgraded Ukraine’s credit rating from B1 to B2 (negative). In November 2009, Fitch further revised its long-term foreign currency credit rating on Ukraine to B– (negative). In March 2010, however, following recent presidential elections and appointment of the new Ukrainian government, S&P and Fitch have upgraded their long-term foreign currency sovereign credit ratings on Ukraine to B– (positive) and B– (stable), respectively.

The absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future, or if such markets are only accessible on unfavourable terms. Under such circumstances, any failure of Ukraine to receive support from sovereign or private creditors or international financial institutions (such as the IMF and the World Bank) could adversely affect Ukraine’s financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which in turn may adversely affect the Ukrainian economy as a whole, and thus, MHP’s business, results of operations and financial condition.

If Ukraine is unable to resort to the international capital markets or syndicated loan markets in the event of an international crisis (as occurred in 1998) or due to adverse domestic developments, a failure by official creditors and of multilateral organisations such as the IMF, the EBRD, the World Bank and the EU to grant adequate financing could put pressure on Ukraine’s budget and foreign exchange reserves and have a material adverse effect on Ukrainian economy as a whole, and thus on MHP’s business, results of operations, financial condition and prospects.

The Ukrainian economy is sensitive to fluctuations in the global economy

Ukraine’s economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. When the global economic and financial situation began to deteriorate in 2008, the effect on Ukraine’s economy was particularly severe.

In particular, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and the imposition of import tariffs by the United States, the EU or by other major export markets. For instance, Ukraine’s industrial output has decreased dramatically starting from the fourth quarter of 2008: the full-year decline in industrial output in 2008 amounted to 3.1%, compared to a growth of 10.2% in 2007 and 6.2% in 2006. Industrial output further declined in 2009 by 21.9%. In addition, consumer price inflation in Ukraine was 9.1% in 2006, 12.8% in 2007, 25.2% in 2008, 15.9% in 2009 and 11.3% for the 2 months ended 28 February 2010, in each case as compared to the corresponding period of the previous year. Wholesale prices are also vulnerable to the increases in world prices for metal products and grain, as well as natural gas and oil, and wholesale price inflation (“WPI”), levels have been also high (at year-end 2008 and 2009, Ukraine had 23% and 14.3% inflation respectively, in each case over the end of the previous year as measured by WPI).

Further, Ukraine's economy has been significantly affected by the global credit crunch that began in 2007, as a result of which international capital markets ceased to be available for Ukrainian borrowers. Reduced external financing available for Ukrainian companies contributed to a decline in industrial production and cutting down of investment projects and capital expenditures generally. A sustained deterioration of global or regional economic conditions may lead to a further worsening of the economic and financial crisis in Ukraine. Any such developments, including continued unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may have or continue to have a material adverse effect on the economy, which in turn may adversely affect MHP's business, results of operations and financial condition.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

External analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in Ukraine in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering ("FATF") in February 2004, and in January 2006 FATF suspended the formal monitoring of Ukraine. In early June 2009, the Ukrainian Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine. In particular, the laws contain measures to prevent corruption, introduce a more detailed regulation of responsibility for involvement in corruption (including the responsibility of legal entities) and provide for international cooperation in combating corruption. Although the newly adopted legislation is expected to facilitate anti-corruption efforts in Ukraine upon its entry into force on 1 January 2011, there can be no assurance that the laws will be effectively applied and implemented by the relevant supervising authorities in Ukraine. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine which in turn may adversely affect MHP's business, results of operations and financial condition.

Ukraine's legal system is in the developmental stages, and laws and regulations may not be consistently interpreted or applied

Risks associated with the Ukrainian legal system include, but are not limited to:

- inconsistencies between and among Ukraine's Constitution, laws, presidential decrees, and governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism through which the Constitutional Court of Ukraine exercises its constitutional jurisdiction;
- general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases;
- corruption within the judiciary; and
- the fact that the resolutions, decisions, clarifications and similar governmental, regulatory and judicial acts, which by their nature do not have the same effect as primary legislation and are capable of being challenged or questioned, including on the grounds that they contravene or contradict relevant primary legislation.

Furthermore, the recent enactment of many of the Ukrainian laws, their limited history of applicability in the conditions of economic downturn, as well as the lack of consensus as to measures necessary to address adverse developments in the Ukrainian economy may place the enforceability and underlying constitutionality of such laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such regulations have either not been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory

authorities. These and other factors that impact Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

Ukraine's judicial system may not be completely independent, impartial or transparent and suffers from lack of staffing and funding as well as inefficiency

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself remains too complicated to ensure smooth and effective removal of discrepancies between Ukraine's Constitution on the one hand and various laws of Ukraine on the other hand.

The court system is also understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law have no precedential effect. For the same reason, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Further, judicial decisions are not publicly available and, therefore, their role as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited. However, according to a new law "On Access to Court Decisions" which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters became generally available to the public from 1 January 2007, although the relevant registry of the court decisions is still being upgraded. In addition, the Ukrainian judicial system became more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system has become even slower than before.

Enforcement of court orders and judgments can in practice be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding successful execution of a court order or judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice, the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays or failure in enforcement of court orders or judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under applicable Ukrainian legislation, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by backdating such legislative changes to a previous date.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. MHP may be subject to such claims and may not be able to receive a fair hearing. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on the Ukrainian economy and thus on MHP's business, results of operations and financial condition.

Ukrainian legal entities may be liquidated on the basis of a lack of strict compliance with certain requirements

Certain provisions of Ukrainian law may allow a court to order the liquidation of a Ukrainian legal entity on the basis that it has not complied strictly with certain requirements relating to the formation or operation of such entity.

Although some of the MHP's Ukrainian subsidiaries might have failed from time to time to comply fully with all applicable legal requirements, Management believes that none of the MHP's Ukrainian

subsidiaries should be subject to liquidation on such grounds. Management also believes that the financial condition of each of the MHP's Ukrainian subsidiaries has been satisfactory at all times, and each is capable of meeting its tax and other third party obligations. If a court or a governmental authority takes an unfavourable view of MHP, it may need to restructure its operations, which could have a material adverse effect on the MHP's business, financial condition and operational results.

Ukrainian tax law and practice are not fully developed and are subject to frequent change and interpretation

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value added tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for MHP and its business generally. For example, with effect from 1 January 2004, personal income tax was reformed by the introduction of a new flat tax of 13% for most levels of income, which was subsequently increased to 15% from 1 January 2007. In addition, with effect from 1 January 2004, the rate of corporate income tax was reduced from 30% to 25%.

The amendments to the Law on the State Budget for 2005, effective since 31 March 2005, abolished different tax preferences, including, *inter alia*, those for domestic and foreign investors, which may become grounds for lawsuits against the state. In particular, the Parliament of Ukraine adopted a law which cancelled the preferential tax treatment of free economic zones. See "Industry Overview—Overview of the Ukrainian Markets for Meat Products—Recent Developments in the Ukrainian Poultry Industry—Effective Introduction of Import Tariff".

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. However, this statutory limitation period may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt this period, or any tax declaration or return applicable to that period, from further review.

While the authorities have consistently found MHP to be in compliance in all material respects with tax laws, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on MHP's business, results of operations, and financial condition.

There are weaknesses in corporate governance standards under Ukrainian law

MHP's operations are conducted entirely through Ukrainian companies. Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002 or with generally accepted international standards. The concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the MHP's Ukrainian subsidiaries or their management could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on the MHP's business, results of operations, and financial condition.

Shareholder liability under Ukrainian legislation could cause a holding company to become liable for the obligations of its Ukrainian subsidiaries

The Ukrainian Civil Code, Economic Code, and the Law on Companies provide that shareholders in a Ukrainian joint stock company or limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (a "**holding company**") exercises effective control over another (a "**subsidiary**"). Under the Law of

Ukraine “On Holding Companies in Ukraine” (the “**Holding Companies Law**”), a company is defined as a “holding company” when:

- (i) it is a joint stock company which owns, and has the right to dispose of, its holding stake in at least two subsidiaries; and
- (ii) such holding stake exceeds 50% or constitutes a stake which procures decisive influence on the business activity of a subsidiary

The holding company, which exercises effective control over the subsidiary, incurs secondary liability with respect to the obligations and liabilities of the subsidiary to the latter’s creditors in the event that the subsidiary, due to the actions or inactivity of the holding company, becomes insolvent and is adjudged bankrupt. Secondary liability implies that the assets of the holding company may be used to satisfy the subsidiary’s liabilities to its creditors, if the subsidiary’s own assets are insufficient.

While it can be argued that JSC MHP is not a Ukrainian holding company because it does not meet certain formal requirements established by the Holding Companies Law, if it is regarded as such, it could be liable in some cases for the debts of its subsidiaries in Ukraine.

Risks Relating to the Notes and the Trading Market

The Issuer is a holding company and is completely dependent on cash flow from its operating subsidiaries to service its indebtedness, including the Notes

The Issuer is a holding company and its primary assets consist of its shares in its subsidiaries, its interests in the Proceeds Loans to Eledem and cash in its bank accounts. Eledem is also a holding company and its primary assets consist of shares of its subsidiaries, its interests in the Proceeds Loans and cash in its bank accounts. Only certain of the Guarantors are party to the Amended Existing Proceeds Loans. The Issuer and Eledem have no revenue generating operations of their own, and therefore their cash flow and ability to service their indebtedness, including the Notes and Proceeds Loans, will depend primarily on the operating performance and financial condition of MHP’s operating subsidiaries, and the receipt of funds from such subsidiaries in the form of interest payments, dividends or otherwise. The operating performance and financial condition of MHP’s operating subsidiaries and the ability of such subsidiaries to provide funds to the Issuer by way of interest payments, dividends or otherwise will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond the Issuer’s control. MHP’s operating subsidiaries may not generate income and cash flow sufficient to enable the Issuer to meet its payment obligations on the Notes.

The Indenture will contain covenants that restrict the Issuer and its subsidiaries from making distributions or other payments to creditors unless certain financial tests and other criteria are satisfied. The terms of other agreements to which the Issuer and its subsidiaries may be or become subject may also restrict the ability of its subsidiaries to provide funds to the Issuer. In addition, the Issuer and its subsidiaries may incur other debt in the future that may contain financial or other covenants more restrictive than those contained in the indenture governing the Notes.

Goodwill impairment and other non-cash charges in MHP’s consolidated income statement, as well as charges recognised directly in equity, such as actuarial losses, foreign exchange rate adjustments and losses on hedges, if incurred, could potentially reduce MHP’s reserves available for distribution and thus reduce or prevent dividend payments to the Issuer.

If MHP’s future cash flows from operations and other capital resources are insufficient for the Issuer to pay its obligations as they mature or to fund liquidity needs of the Issuer and its subsidiaries, the Issuer and its subsidiaries may, among other things be forced to:

- reduce or delay business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of their debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

There can be no assurance that any of these alternatives can be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of the Issuer's and its subsidiaries' existing and future debt, including the Notes, may limit their ability to pursue any of these alternatives.

MHP's business may be adversely affected as a result of its substantial indebtedness

The Issuer and its subsidiaries have and will continue to have a substantial amount of outstanding indebtedness and obligations with respect to the servicing of such indebtedness. As of 31 December 2009, after giving effect to the Offering, the Exchange Offer (assuming that all the Existing Notes are exchanged prior to the Withdrawal Deadline) and the repayment of UAH 798.5 million (U.S.\$100 million) of short-term loan facilities provided by certain Ukrainian Banks as described in "Use of Proceeds":

- the Issuer would have had long-term senior debt of U.S.\$572.6 million;
- the Guarantors together, after the elimination of any intercompany indebtedness and liabilities, would have had total indebtedness (other than the Guarantees) of U.S.\$95.8 million of bank borrowings, U.S.\$10.0 million of which would have been secured and effectively have ranked senior to the Notes, and Restricted Subsidiaries which are not Guarantors would not have had any bank borrowings. See "Description of Other Indebtedness"; and
- in addition, there was U.S.\$69 million of capital leases and U.S.\$6.3 million of vendor financing that would effectively rank senior to the Notes and Guarantees.

This substantial indebtedness could have adverse consequences for MHP's business, including:

- requiring MHP to dedicate a substantial portion of cash flow to make payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, new acquisitions and other general corporate purposes;
- increasing the vulnerability of MHP to general adverse economic and industry conditions;
- limiting the flexibility of MHP in planning for, or reacting to, changes in its business and in the poultry industry;
- limiting the ability of MHP to make acquisitions or take other corporate actions;
- placing MHP at a competitive disadvantage compared to competitors who have less indebtedness in relation to cash flow; and
- limiting the ability of MHP to borrow additional funds and increasing the cost of any such borrowings, particularly because of the financial and other restrictive covenants contained in the Indenture governing the Notes.

In addition, to the extent that MHP's debt obligations are based on fixed interest rates, its ability to service these debt obligations could be adversely affected by deflationary periods in which prices for its products may decline, resulting in reduced cash inflows.

Restrictions in MHP's debt instruments may limit its ability to operate its business

The indenture governing the Notes and certain of MHP's other debt instruments contain covenants that limit the discretion of Management with respect to certain business matters. For example, these covenants will significantly restrict the ability of the Issuer and certain of its subsidiaries to, among other things:

- incur additional debt;
- pay dividends or distributions on, redeem or repurchase capital stock;
- make certain restricted payments and investments;
- create certain liens;
- transfer or sell assets;
- engage in sale and leaseback transactions;
- merge or consolidate with other entities; and
- enter into transactions with affiliates.

These covenants could materially and adversely affect the Issuer's ability to finance the future operations or capital needs of the Issuer or its subsidiaries or to engage in other business activities that may be in the best interests of the Issuer or its subsidiaries. See "Description of Other Indebtedness" and "Description of Notes—Certain Covenants".

Subsidiaries of MHP have indebtedness that is secured and therefore effectively senior to the Notes and the Guarantees

As of 31 December 2009, after giving effect to the Offering and the application of proceeds therefrom as described in "Use of Proceeds", MHP would have an aggregate amount of approximately U.S.\$10.0 million of secured indebtedness (excluding vendor financing and capital leases). All of such secured indebtedness will be effectively senior to the Issuer's obligations under the Notes and the Guarantors' obligations under the Guarantees, which are unsecured. As a result, if the Issuer defaults under the Notes, and this default triggers an event of default under any of such secured indebtedness, holders of such secured indebtedness will have priority over the Noteholders to the extent of the assets securing such indebtedness.

The terms of the Indenture governing the Notes allow MHP to increase the amount of its secured indebtedness under certain conditions. See "Description of Other Indebtedness" and "Description of Notes".

MHP may not be able to finance a change of control offer required by the Indenture

Upon the occurrence of certain change of control events, MHP will be required to offer to repurchase all outstanding Notes at 101% of the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of the repurchase. If any such change of control event were to occur, there can be no assurance that MHP would have sufficient funds available at the time to pay the price of the outstanding Notes. The change of control may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. In any case, Management expects that MHP would require third-party financing to make a change of control offer. There can be no assurance that MHP would be able to obtain this financing. See "Description of Notes—Repurchase at the Option of Holders—Change of Control".

The claims of holders of the Notes may be limited in the event that the Issuer or one or more of the Guarantors is declared bankrupt

Ukrainian bankruptcy law may prohibit the Guarantors from making payments pursuant to the Suretyship Agreement or the Proceeds Loans under certain circumstances. Ukrainian bankruptcy law differs from bankruptcy laws of England and the United States, and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of holders of the Notes against MHP would be resolved in the event of the bankruptcy of one or more of the Guarantors. In the event of the bankruptcy of a Guarantor, its obligations to holders of the Notes would be subordinated to the following obligations:

- obligations secured by pledges or mortgages of its assets;
- severance pay and employment related obligations;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;
- workplace injury obligations; and
- local and state taxes and other mandatory payments (including mandatory pension and social security contributions).

In the event of the bankruptcy of one or more of the Guarantors, Ukrainian bankruptcy law may materially adversely affect their ability to make payments to holders of the Notes.

The Issuer is incorporated under and subject to Luxembourg law

The Issuer is a public limited liability company (*société anonyme*) incorporated under Luxembourg law. The rights of holders of Notes and the responsibilities of the Issuer to the holders of Notes under

Luxembourg law may be materially different from those with regard to equivalent instruments under the laws of the jurisdiction in which the Notes are offered.

Insolvency proceedings may be brought against the Issuer and such proceedings may proceed under, and be governed by, Luxembourg insolvency laws (see “—Luxembourg insolvency laws may not be as favourable as insolvency laws in other jurisdictions”).

Luxembourg insolvency laws may not be as favourable as insolvency laws in other jurisdictions

The insolvency laws of Luxembourg may not be as favourable to holders of Notes as insolvency laws of jurisdictions with which investors may be familiar.

The Issuer is incorporated and has its centre of main interests in Luxembourg. Accordingly, insolvency proceedings with respect to the Issuer may proceed under, and be governed by, Luxembourg insolvency laws. The insolvency laws of Luxembourg may not be as favourable to investors’ interests as those of other jurisdictions with which investors may be familiar. The following is a brief description of certain aspects of insolvency laws in Luxembourg.

Under Luxembourg insolvency laws, the following types of proceedings (together referred to as insolvency proceedings) may be opened against the Issuer to the extent it has its registered office or centre of main interest in Luxembourg:

- bankruptcy proceedings (*faillite*), the opening of which may be requested by the Issuer or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings, if the Issuer (a) is in default of payment (*cessation des paiements*) and (b) has lost its commercial creditworthiness (*ébranlement de crédit*). If a court finds that these conditions are satisfied, it may also open bankruptcy proceedings, absent a request made by the Issuer or a creditor. The main effect of such proceedings is the suspension of all measures of enforcement against the Issuer, except, subject to certain limited exceptions, for secured creditors and the payment of creditors in accordance with their rank upon the realisation of assets;
- controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by the Issuer and not by its creditors; and
- composition proceedings (*concordat préventif de faillite*), which may be requested only by the Issuer (having received prior consent of a majority of its creditors) and not by its creditors. The court’s decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by creditors.

In addition to these proceedings, the ability of the holders of Notes to receive payment on the Notes may be affected by a decision of a court to grant a reprieve from payments (*sursis de paiements*) or to put the Issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious violation of the commercial code or of the Luxembourg act dated 10 August 1915 on commercial companies, as amended. The management of such liquidation proceedings will generally follow similar rules as those applicable to bankruptcy proceedings.

The Issuer’s liabilities in respect of the Notes will, in the event of a liquidation of the Issuer following bankruptcy or judicial liquidation proceedings, rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those of the concerned Issuer’s debts that are entitled to priority under Luxembourg law. Preferential debts under Luxembourg law for instance include, among others:

- certain amounts owed to the Luxembourg Revenue;
- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured creditors (except after enforcement and to the extent a surplus is realised).

During insolvency proceedings, all enforcement measures by unsecured creditors are suspended. The ability of secured creditors to enforce their security interest may also be limited in the event of controlled

management proceedings automatically causing the rights of secured creditors to be frozen until a final decision has been taken by the court as to the petition for controlled management, and may be affected thereafter by a reorganisation order given by the court. A reorganisation order requires the prior approval by more than 50% of the creditors representing more than 50% of the Issuer's liabilities in order to take effect.

Luxembourg insolvency laws may also affect transactions entered into or payments made by the Issuer during the period before bankruptcy, the so-called suspect period (*période suspecte*) which is a maximum of six months preceding the judgment declaring bankruptcy, except that in certain specific situations the court may set the start of the suspect period at an earlier date, if the bankruptcy judgment was preceded by another insolvency bankruptcy judgment under Luxembourg law, the court may set the maximum up to six months prior to the filing for such controlled management. In particular:

- pursuant to article 445 of the Luxembourg code of commerce, specified transactions (such as, in particular, the granting of a security interest for antecedent debts; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to article 446 of the Luxembourg code of commerce payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt's cessation of payments;
- pursuant to article 21(2) of the Luxembourg act dated 5 August 2005 concerning financial collateral arrangements, notwithstanding the suspect period as referred to in articles 445 and 446 of the Luxembourg code of commerce, where a financial collateral arrangement has been entered into after the opening of liquidation proceedings or the coming into force of reorganisation measures or the entry into force of such measures, this agreement is valid and binding against third parties, administrators, insolvency receivers, liquidators and other similar organs if the collateral taker proves that it ignored the fact that such proceedings had been opened or that such measures had been taken or that it could not reasonably be aware of it; and
- in case of bankruptcy, article 448 of the Luxembourg code of commerce and article 1167 of the civil code (*action paulienne*) gives the insolvency receiver (acting on behalf of the creditors) the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts except for *intuitu personae* contracts, that is, contracts for which the identity of the company or its solvency were crucial. The contracts, therefore, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts. However, as of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-à-vis the bankruptcy estate. The bankruptcy order provides for a period of time during which creditors must file their claims with the clerk's office of the Luxembourg district court sitting in commercial matters. After having converted all available assets of the company into cash and after having determined all the company's liabilities, the insolvency receiver will distribute the proceeds of the sale, on a *pro rata* basis, to the creditors after deduction of the receiver fees and the bankruptcy administration costs.

Insolvency proceedings may hence have a material adverse effect on the Issuer's business and its obligations under the Notes.

Exchange rate risks and exchange controls generally

Principal and interest on the Notes will be paid in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (a) the Investor's Currency equivalent yield on the Notes, (b) the Investor's

Currency equivalent value of the principal payable on the Notes and (c) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Guarantors' Proceeds Loans from Eledem could be challenged as a result of Eledem not being a financial institution

Under one interpretation of the Commercial Code of Ukraine (the "**Commercial Code**"), there is a provision that only allows a Ukrainian borrower to receive a foreign currency loan from a foreign financial institution. A fair reading of Ukrainian legislation supports the interpretation that the specified provision of the Commercial Code is declaratory in nature, and is not restrictive. Based on professional advice received by the Issuer, (i) the Issuer is not aware of any precedent whereby the NBU or any other Ukrainian governmental authority has challenged the permissibility or validity of a loan agreement between a Ukrainian borrower that is not a bank and a foreign lender that is not a financial institution solely on the basis that the foreign lender did not have the status of a financial institution, and (ii) nor is the Issuer aware of any established court practice providing a basis for a loan agreement to be invalidated on such basis. Accordingly, Management believes it is highly unlikely that the validity of the Proceeds Loans to be entered into between Eledem and the Guarantors (the "**Guarantors' Proceeds Loans**") could be successfully challenged on the basis that Eledem is not a financial institution.

An interest rate cap may limit the Guarantors' ability to make payments under the Guarantors' Proceeds Loans

In June 2004, the board of the NBU passed a resolution restricting Ukrainian borrowers of loans granted by foreign lenders from making payments of interest, additional amounts, fees, default interest, penalties and other charges under loan agreements which, in aggregate, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "**MIR**") to the principal amount of the loan. As at the date of this Offering Memorandum, the MIR applicable to fixed interest rate loans in major foreign convertible currencies (including U.S. Dollars) the maturities of which are less than one year is 9.8% per annum, the MIR applicable to loans the maturities of which are from one year to three years is 10.0% per annum and the MIR applicable to loans the maturities of which are in excess of three years is 11.0% per annum. The NBU has the authority to review and modify the applicable MIR from time to time and may refuse to register amendments to the Guarantors' Proceeds Loans, if any interest rate (including additional amounts, fees, default interest, penalties and other payments) on the Guarantors' Proceeds Loans exceeds the then applicable MIR.

In the event of prepayment of the Guarantors' Proceeds Loans, the NBU would not permit the aggregate amount of interest, additional amounts, fees, default interest, penalties and other payments made in connection with the Guarantors' Proceeds Loans to exceed, in aggregate per annum, an amount determined by applying the applicable MIR to the principal amount of the Guarantors' Proceeds Loans. The NBU would require the application of the MIR based on the period for which the Guarantors' Proceeds Loan has been outstanding as at the date of prepayment rather than the contractual maturity, which may result in the application of a lower MIR (e.g. the MIR applicable to fixed interest rate loans the maturities of which are less than one year instead of the MIR applicable to fixed rate loans the maturities of which are in excess of three years). Moreover, because the NBU has the authority to regularly review and modify such MIR from time to time, a reduction in the MIR could further limit the ability of the Holders of Notes to collect interest, additional amounts, default interest or other charges payable in connection with a prepayment of the Notes.

Ukrainian currency control regulations may impact the Guarantors' ability to make payments under the Guarantors' Proceeds Loans and under the Guarantees

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation. Ukrainian currency controls and practice are subject to continuing change, with the NBU exercising considerable autonomy in interpretation and practice.

While at present the Guarantors' Proceeds Loans are only subject to registration with the NBU, and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Guarantors' Proceeds Loans, no assurance can be given that such law and practice will remain

unchanged during their term. So long as the Guarantors' Proceeds Loans are registered with the NBU, payments under the Guarantors' Proceeds Loans to any entity other than Eledem would require prior registration with the NBU of the resulting change in the loan transaction or an individual licence from the NBU. Based on professional advice received by the Issuer, management believes that the NBU would be inclined to view enforcement by the Trustee of security under the Proceeds Loan Assignment with respect to the Guarantors' Proceeds Loan as a mere assignment of Eledem's claims against the Guarantors to the Trustee and would be in the position to register the change in the loan transaction. The registration of such a change would be effected by the NBU upon examination of the terms of the relevant Proceeds Loan Assignment. However, the NBU has broad discretion in evaluating and approving the registration of such a change in the loan transaction and could reject such registration as a result of, for example, insufficient, misleading or contradictory documentation being provided to the NBU for such registration. As a result, there can be no assurance that such assignment by Eledem to the Trustee under the Proceeds Loan Assignment would be successfully registered with the NBU so as to allow the Guarantors to make payments under Guarantors' Proceeds Loan to the Trustee in the event of an enforcement of security by the Trustee. Should the NBU refuse to register such a change, a Guarantor will not be permitted to make any payments under the Guarantors' Proceeds Loan to any other entity unless it obtains an individual licence of the NBU permitting such payments. There can be no assurance that a Guarantor would receive such a licence in such case and there can be no assurance that the Trustee would be able to meet any requirements of the NBU in connection with any such registration or licence. If the necessary registration or licence were to be refused, no assurance can be given that the Guarantors will be able to make any payments under the Guarantors' Proceeds Loan in the event of enforcement of security by the Trustee.

The Guarantors, as co-obligors, are jointly and severally liable to repay the full amount due to Eledem under the Guarantors' Proceeds Loans. Under applicable Ukrainian legislation, if a Guarantor were required to repay an amount in excess of the principal amount of the Guarantors' Proceeds Loans actually received by it (together with interest thereon) (an "**Excess Guarantors' Proceeds Loan Payment**"), such Guarantor may be required to obtain an individual licence (a "**Foreign Payment Licence**") from the NBU in order to make a cross border Excess Guarantors' Proceeds Loan Payment. However, the NBU does not issue Foreign Payment Licences in advance for contingent payments when the amount and the date of a cross border payment are not known. Based on professional advice, management believes that it is highly unlikely that a Foreign Payment Licence would not be granted for an Excess Guarantors' Proceeds Loan Payment. However, the NBU has discretion in the issuance of Foreign Payment Licences and there can therefore be no assurance that it will grant a Foreign Payment Licence in these circumstances. The failure or refusal of the NBU to grant such a Foreign Payment Licence cannot affect the validity of the Guarantors' Proceeds Loans or the joint and several liability of the Guarantors under the Guarantors' Proceeds Loans and in the absence of a Foreign Payment Licence a Guarantor would be permitted to make a cross border Excess Guarantors' Proceeds Loan Payment pursuant to a valid and effective order of a Ukrainian court (enforcing a foreign arbitral award or adopted as a result of review of the merits of the dispute).

There is an NBU regulation pursuant to which the State Information and Analytical Center for Monitoring External Commodity Markets (the "**SIAC**") is required to review the fees for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services purchased within one calendar year from the same payee) with a value in excess of €100,000 (or an equivalent in another currency), excluding payments made according to a registration certificate issued for registration of a loan from a non-resident. Unless a cross-border transaction relating to a non-resident's services is licensed by the NBU, or is otherwise subject to an exemption, any such payment can only be made if the SIAC determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with market standards. If the SIAC for any reason refuses to make that determination, any such payment can be made only on the basis of a specific permission from the NBU. If the SIAC determines that the fees are excessive, or if the SIAC refuses to make that determination and the NBU does not grant a specific permission, the payment of fees cannot be made (unless such decision of the SIAC or the NBU has been overruled by a court order). Based on professional advice received by the Issuer, Management believes that that the Guarantors' payments under the Guarantors' Proceeds Loans will be exempt from this requirement on the basis that the Guarantors' Proceeds Loans will be registered with the NBU.

The Guarantees will constitute suretyships under Ukrainian law. Under applicable Ukrainian legislation, a resident Ukrainian entity may be required to obtain a Foreign Payment Licence from the NBU in order to make cross-border payments pursuant to a suretyship (although no Foreign Payment

Licence is required for a resident Ukrainian entity to issue the suretyship). However, as discussed above, the NBU does not issue Foreign Payment Licences in advance or for contingent payments when the amount and date of a cross-border payment are not known. Although there have been instances in which the NBU took a liberal approach to the relevant legislation and did not require a Foreign Payment Licence to be obtained in order to make a cross-border payment under a suretyship, there can be no assurance that such a position of the NBU will be maintained in a particular situation or in the future. A change of the NBU's position with regard to Foreign Currency Licences cannot affect the validity of a particular suretyship, and in the absence of a Foreign Payment Licence, a resident Ukrainian entity that is the issuer of a suretyship would be permitted to make cross-border payments under such suretyship pursuant to a valid and effective order of a Ukrainian court (enforcing a foreign arbitral award or adopted as a result of review of the merits of the dispute).

The ability of the Guarantors to make cross-border payments under the Guarantees may be further impeded by Ukrainian currency control regulations restricting a resident Ukrainian entity's ability to purchase foreign currency in order to make payments under a suretyship issued with respect to obligations of a foreign debtor. At the same time, the Guarantors may utilise their own foreign currency funds for the purpose of making such cross-border payments pursuant to the Guarantees.

The Guarantors may not be permitted to prepay under the Guarantors' Proceeds Loan

A recently adopted Ukrainian anti-crisis law contains provisions prohibiting a Ukrainian borrower from discharging any of its obligations to a foreign lender under a foreign currency loan agreement before the due date of the obligation. Such provisions are broadly interpreted in the market as prohibiting any loan prepayments by a Ukrainian borrower, even if such prepayments are expressly provided for by the terms of the loan agreement. Such adverse interpretation has not yet been supported by any court practice or binding official interpretations. However, if the Ukrainian authorities or courts were to adopt such an adverse interpretation, the Guarantors' ability to make any prepayment under the Guarantors' Proceeds Loans, including any mandatory prepayment upon an enforcement by the Trustee of the security under the Proceeds Loan Assignments could be restricted. The specified restriction is stated to be of temporary nature and is expected to remain in effect until 1 January 2011.

The Guarantors' payments under the Guarantors' Proceeds Loans may be subject to withholding tax

In general, interest payments on borrowed funds made by a Ukrainian entity to a non-resident are subject to Ukrainian withholding tax at a rate of 15%, unless the withholding tax is reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice received by the Issuer, management believes that interest payments made by Guarantors to Eledem under the Guarantors' Proceeds Loan should not be subject to withholding tax under the terms of the Double Tax Treaty, provided that Eledem is deemed a resident of Cyprus within the scope of the Double Tax Treaty. However, there can be no assurance that such relief will be always available. In particular, there can be no assurance that the Double Tax Treaty will not be renegotiated between the countries, reinterpreted by the Ukrainian tax authorities or terminated by the Ukrainian Parliament, or that Ukraine and Cyprus will not enter into a new double tax treaty. In any such event, the benefits of the Double Tax Treaty might no longer be available.

In circumstances where payments under the Guarantors' Proceeds Loans become payable to the Note Security Agent pursuant to the collateral assignment of the Guarantors' Proceeds Loans, benefits of the Double Tax Treaty may cease and payments under Guarantors' Proceeds Loans to the Note Security Agent may be required to be made subject to a Ukrainian income tax withholding at a rate of 15%, or such other rate as may be in force at the time of payment. The imposition or possibility of imposition of such withholding tax could adversely affect the value of the Notes.

If any payments (including payments of interest) under the Guarantors' Proceeds Loans are subject to any withholding tax, the Guarantors will, in certain circumstances specified in the Guarantors' Proceeds Loans, become obliged to pay such additional amounts as may be necessary so that the net payments received by Eledem as lender will not be less than the amount it would have received in the absence of such withholding. In the event that the Guarantors are obliged to pay such additional amounts, the Guarantors are entitled to prepay the Guarantors' Proceeds Loans at their principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Guarantors) all outstanding Notes will be prepaid by MHP. While there is uncertainty as to whether the gross-up clause contained in the Guarantors' Proceeds Loans is enforceable under Ukrainian law, a failure by the

Guarantors to pay additional amounts due under the Guarantors' Proceeds Loans would constitute a default under the Guarantors' Proceeds Loans.

The Guarantees will constitute suretyships under Ukrainian law and could be challenged

The Guarantees will constitute suretyships under Ukrainian law. Under the Law of Ukraine "On Financial Services and the State Regulation of the Markets of Financial Services" dated 12 July 2001, suretyships are considered "financial services", which may only be rendered by a duly licensed bank or other financial institution or, as an exception, by a non-financial institution when expressly permitted by a law of Ukraine or the State Commission of Ukraine on the Regulation of the Markets of Financial Services (the "**Commission**"). The Commission has recently permitted non-financial institutions to issue suretyships, subject to compliance by the issuer of a suretyship with anti-money laundering requirements and procedures. Ukrainian companies often conclude suretyship agreements, and neither the Commission nor Ukrainian courts have as yet challenged such practice. However, due to a lack of guidance by the Commission with regard to the exact scope of such compliance, a particular surety could be viewed by the Ukrainian authorities or courts as not complying with such requirements and procedures and, accordingly, the legal capacity of such surety to issue a suretyship and the validity of any particular suretyship could be challenged. Based on professional advice received by the Issuer, Management believes that any such challenge is highly unlikely.

Foreign judgments may not be enforceable in Ukraine

Courts in Ukraine will generally not recognise and/or enforce any judgment obtained in a court of a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom or the United States. Accordingly, the holders of the Notes and other parties to the Indenture, the Suretyship Agreement and the Proceeds Loans would generally not be able to enforce their rights thereunder.

In the absence of such international treaty, the Ukrainian courts may recognise and enforce a foreign court judgment only on the basis of the principle of reciprocity. Ukrainian legislation provides that unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian legislation does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice on these provisions of Ukrainian legislation. Accordingly, there is no assurance that the Ukrainian courts will recognise or enforce a judgment rendered by United States or United Kingdom courts on the basis of the principle of reciprocity. Furthermore, the Ukrainian courts might refuse to recognise and enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in Ukrainian legislation in effect on the date on which such recognition and/or enforcement are sought.

Since Ukraine is a party to the New York Convention, an arbitral award would be enforceable in Ukraine, subject to the terms of the New York Convention. See "Service of Process and Enforcement of Civil Liabilities".

There is no public market for the Notes

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made for admission to trading of the Notes on the London Stock Exchange's Regulated Market. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's financial condition, performance and prospects, as well as recommendations of securities analysts.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the credit rating of the Guarantor, and the trading market for notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's operating results, financial condition or prospects or the credit rating of the Guarantor.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS and eastern European countries and emerging markets generally. In the past, financial turmoil in Ukraine and other emerging markets has adversely affected market prices in the world's securities markets for companies that operate in these developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these other countries could materially adversely affect the market price of the Notes. Since the beginning of the current financial and economic crisis, many global securities markets have experienced extreme price and volume fluctuations, particularly those in Ukraine and other developing economies. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

Any negative change in Ukraine's or the Notes' credit rating could adversely affect the market price of the Notes

Ukraine's foreign currency denominated sovereign bonds are rated "B- (positive)" by S&P, "B- (stable)" by Fitch and "B2 (negative)" by Moody's and the Notes are expected to be rated B3 by Moody's and B- by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in Ukraine's or the Notes' credit rating could materially adversely affect the market price of the Notes.

USE OF PROCEEDS

The net proceeds to MHP of the Offering of the New Notes will be approximately U.S.\$329.4 million. The Issuer intends to use the net proceeds from the Offering of the New Notes to repay an estimated aggregate U.S.\$100 million of short-term loan facilities provided by certain Ukrainian banks with the balance of such proceeds being used for general corporate purposes and to finance the expansion and diversification of the Issuer's poultry and grain businesses, principally through the construction of the Vinnytsya chicken farm and land acquisitions (including acquisitions of companies holding land) to increase MHP's aggregate land holdings up to 300,000 hectares. U.S.\$90 million of this amount will be held in cash or cash equivalents but is expected to be used in due course for capital expenditure. MHP will not receive any new proceeds from the Exchange Notes that are being issued in the Exchange Offer in exchange for the Existing Notes.

The following table sets forth the estimated sources and uses of the proceeds from the Offering of the New Notes:

Sources of Funds	(U.S.\$ in millions)	Use of Funds ⁽¹⁾	(U.S.\$ in millions)
		Repay certain existing debt ⁽²⁾	100
		Capital expenditures and general corporate purposes	234.8
New Notes	334.8	Total use of new proceeds	334.8
Total sources	334.8	Total uses	334.8

Notes:

- (1) Estimated debt issuance costs for the New Notes of approximately U.S.\$5.4 million will be paid by MHP or one of its subsidiaries from its own cash reserves.
- (2) Repayment of existing debt is an estimated number based on 31 March 2010 outstandings and may be slightly more or less.

EXCHANGE OFFER

On 12 April 2010, the Issuer launched the Exchange Offer, accompanied by a consent solicitation, with respect to its Existing Notes, all pursuant to the procedures, terms and conditions set out in the Consent Solicitation and Exchange Offer Memorandum dated 12 April 2010. On 21 April 2010, the Issuer had received eligible tenders of U.S.\$226,495,000 of the Existing Notes and will issue U.S.\$240,572,000 of Exchange Notes in exchange therefor. The settlement date for Exchange Notes issued in exchange for Existing Notes tendered on or prior to 21 April 2010 (the “**Withdrawal Deadline**”) is the same date as the date for settlement of the New Notes. In the Exchange Offer, the Issuer offered U.S.\$1,062.50 principal amount of Notes for every U.S.\$1,000 principal amount of Existing Notes tendered before the Withdrawal Deadline and is offering U.S.\$1,032.50 principal amount of Notes for every U.S.\$1,000 principal amount of Existing Notes tendered thereafter. Holders of Existing Notes that have tendered their Existing Notes in the Exchange Offer were deemed to have consented to amendments to the Proposed Amendments.

In addition, the Issuer solicited consents from holders of the Existing Notes not exchanging their Existing Notes for a fee of U.S.\$5 per U.S.\$1,000 principal amount of Existing Notes. The effect of the Proposed Amendments is to modify certain of the restrictive covenants and certain security provisions relating to the Existing Notes so that such covenants and provisions are substantially consistent with the covenants and security provisions for the Notes and to permit the holders of the Notes and the Existing Notes to participate equally in security over the Proceeds Loans.

The Exchange Offer will remain open for acceptance until the expiration date (the “**Expiration Date**”) which is expected to be, subject to extension, on or about 10 May 2010. Exchange Notes issued in exchange for Existing Notes tendered after the Withdrawal Deadline but before the Expiration Date will be issued on or around 13 May 2010 (the “**Final Settlement Date**”), approximately 15 days following settlement of the Offering of the New Notes. The aggregate principal amount of Exchange Notes issued on the Final Settlement Date will be notified to holders of Notes via the Regulatory News Service of the London Stock Exchange.

EXCHANGE RATE INFORMATION

MHP's Audited Consolidated Financial Statements are presented in U.S. dollars, which differs from the functional currency of the Group, which is Ukrainian hryvnia. Accordingly, there can be significant variances due to currency fluctuations when comparing periods, especially when there is a material change in the exchange rate of the U.S. dollar to the hryvnia. Due to the significant change in the U.S. dollar/hryvnia exchange rate during the financial years 2007, 2008 and 2009, this Offering Memorandum presents certain results for these periods in both U.S. dollars and hryvnia. The hryvnia amounts have been derived from the following sources: (a) certain numbers are derived from MHP's IFRS consolidation accounting system, presented in hryvnia, which are translated into the numbers appearing in the Audited Consolidated Financial Statements pursuant to IAS 21, (b) certain numbers not derived from MHP's IFRS consolidation accounting system are derived from the underlying accounting records of MHP and (c) all other information (other than numbers derived from MHP's IFRS consolidation accounting system or the underlying accounting records of MHP) has been translated into U.S. dollars at a conversion rate of UAH 7.93 to U.S.\$1.00, which was the rate published by the National Bank of Ukraine ("NBU") on 31 March 2010. Such hryvnia amounts have not been derived from audited financial statements. No representation is made that the hryvnia or dollar amounts referred to herein could have been or could be converted into hryvnia or dollars, as the case may be, at these rates, at any other particular rate or at all. See "Exchange Rate Information". For a discussion of MHP's functional currency and its presentation currency, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Functional and Presentation Currency." This translation methodology gives rise to a different result than if the income and expenses statements had been translated at a single current exchange rate, as in convenience translation.

The table below sets forth, for the periods indicated, the period-end, average and high and low official rates set by the NBU, in each case for the purchase of hryvnia, all expressed in hryvnia per U.S. dollar. The exchange rate for hryvnia was fixed at UAH 5.05 to U.S.\$1.00 from 21 April 2005 until 21 May 2008. The NBU's hryvnia/U.S. dollar exchange rate as reported on 22 April 2010 was UAH 7.93 to the U.S. dollar. These rates are not necessarily the same rates that have been used in the preparation of MHP's Audited Consolidated Financial Statements (see above explanation).

<u>Year</u>	<u>Period end</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
2005	5.05	5.11	5.31	5.05
2006	5.05	5.05	5.05	5.05
2007	5.05	5.05	5.05	5.05
2008	7.70	5.39	7.88	4.84
2009	7.99	7.81	8.02	7.61
<u>Quarter</u>	<u>Period end</u>	<u>Average⁽²⁾</u>	<u>High</u>	<u>Low</u>
1st Quarter 2007	5.05	5.05	5.05	5.05
2nd Quarter 2007	5.05	5.05	5.05	5.05
3rd Quarter 2007	5.05	5.05	5.05	5.05
4th Quarter 2007	5.05	5.05	5.05	5.05
1st Quarter 2008	5.05	5.05	5.05	5.05
2nd Quarter 2008	4.85	4.96	5.05	4.85
3rd Quarter 2008	4.86	4.85	4.86	4.84
4th Quarter 2008	7.70	6.22	7.88	4.86
1st Quarter 2009	7.70	7.70	7.70	7.70
2nd Quarter 2009	7.63	7.65	7.71	7.61
3rd Quarter 2009	8.01	7.82	8.01	7.62
4th Quarter 2009	7.99	7.99	8.02	7.97
1st Quarter 2010	7.93	7.99	8.01	7.93
<u>Month</u>	<u>Period end</u>	<u>Average⁽²⁾</u>	<u>High</u>	<u>Low</u>
January 2010	8.00	8.00	8.01	7.99
February 2010	7.99	8.00	8.01	7.99
March 2010	7.93	7.97	7.99	7.93
April 2010 (through 22 April)	7.93	7.93	7.93	7.92

Source: NBU.

Notes:

- (1) The period average in respect of a year is calculated as the average of the exchange rates on the last day of each month for the relevant annual period on which the NBU published an exchange rate.
- (2) The period average in respect of a quarter or month is calculated as the average of the exchange rates for each day in the relevant quarter or month on which the NBU published an exchange rate.

The table below sets forth, for the period-ends, official rates set by the NBU for the purchase of hryvnia, expressed in hryvnia per Euro. The NBU's hryvnia/Euro exchange rate as reported on 22 April 2010 was UAH 10.60 to the Euro. In addition, the table also sets forth for the period-ends rates as reported by the Federal Reserve Bank of New York for the purchase of Euro, expressed in U.S. dollar per Euro.

<u>Year</u>	<u>Period end</u>	<u>Period end</u>
	UAH	U.S.\$
2007	7.42	1.46
2008	10.86	1.39
2009	11.45	1.43
2010 (31 March)	10.68	1.35

Source: NBU/The Federal Reserve Bank of New York

Fluctuations in the exchange rates between the hryvnia, the U.S. dollar and the euro in the past are not necessarily indicative of fluctuations that may occur in the future. No representation is made that the hryvnia and euro amounts referred to in this Offering Memorandum could have been or could be converted into U.S. dollars at the above exchange rates or at any other rate.

CAPITALISATION

The following table sets forth, as of 31 December 2009: (i) U.S. dollar amounts of actual short-term and long-term bank borrowings, Existing Notes and equity items of MHP, derived from the Audited Consolidated Financial Statements but does not include interest, finance lease and vendor financing obligations included elsewhere in this Offering Memorandum—see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations”. The equivalent hryvnia amounts have been derived from MHP’s IFRS consolidation accounting system presented in hryvnia, which are translated into the numbers appearing in the Audited Consolidated Financial Statements pursuant to IAS 21. Such hryvnia amounts have not been derived from audited financial statements; and (ii) such items as adjusted to give pro forma effect to the Offering and the Exchange Offer without taking into account future interest (assuming all Existing Notes are exchanged for Exchange Notes) and the repayment of certain existing indebtedness out of the proceeds of the Offering. See “Use of Proceeds”.

	As at 31 December 2009			
	Actual		As adjusted	
	UAH	U.S.\$	UAH ⁽¹⁾	U.S.\$
	(unaudited)		(unaudited)	
	(In thousands)			
Short-term bank borrowings (including current portion of long-term borrowings) ⁽²⁾⁽³⁾	1,116.2	139.8	317.7	39.8
Long term bank borrowings, net of current portion (excluding the Existing Notes)	447.5	56.0	447.5	56.0
Existing Notes ⁽⁴⁾⁽⁵⁾	1,980.6	248.0	—	—
Exchange Notes ⁽⁵⁾⁽⁶⁾	—	—	1,942.0	243.2
New Notes ⁽⁷⁾	—	—	2,630.3	329.4
Equity				
Share capital	1,436.8	284.5	1,436.8	284.5
Additional paid-in capital	905.5	178.8	905.5	178.8
Revaluation reserve	122.5	18.8	122.5	18.8
Cumulative translation differences	—	(238.5)	—	(238.5)
Retained earnings	1,355.6	231.0	1,355.6	231.0
Minority interest	127.6	19.8	127.6	19.8
Total equity	3,948.0	494.4	3,948.0	494.4
Total capitalisation ⁽⁸⁾⁽⁹⁾	7,492.3	938.2	9,285.5	1,162.8

Notes:

- (1) Any adjustments to actual amounts are translated using the rate of UAH 7.985 for 1 U.S. dollar being the rate prevailing at 31 December 2009. Note that actual UAH amounts, sourced as described above, are not translations at this rate.
- (2) Has not been netted against actual cash and cash equivalents of UAH 177.7 million (U.S.\$22.2 million) as at 31 December 2009.
- (3) As adjusted reflects repayment of UAH 798.5 million (U.S.\$100 million) of borrowing with a portion of the proceeds of the Offering.
- (4) The principal amount of the Existing Notes outstanding at 31 December 2009 was U.S.\$250 million. The U.S.\$248 million included in the table reflects the carrying value of the obligation due to unamortised issuance costs.
- (5) Assumes all Existing Notes are exchanged for the Exchange Notes prior to the Expiration Deadline i.e. that U.S.\$266 million of Exchange Notes (principal amount) are issued.
- (6) MHP is currently evaluating the accounting for the Exchange Offer, which involves the exchange of up to U.S.\$250 million principal amount of the Existing Notes for up to U.S.\$266 million principal amount of the Exchange Notes. The adjusted capitalisation table is prepared assuming that the Exchange Offer is accounted for as a modification to the Existing Notes. Based on this assumption, the Exchange Notes are reflected at the unamortised cost of the Existing Notes of U.S.\$248 million, with costs related to the issuance of the Exchange Notes (estimated at U.S.\$4.8 million, which is equivalent to UAH 38.3 million, calculated at the rate of UAH 7.985 for 1 U.S. dollar) reducing the carrying value to U.S.\$243.2 million, and the difference between the principal amount of U.S.\$266 million and the carrying value of U.S.\$243.2 million to be accreted during the period until maturity. Should the Exchange Offer be treated as debt extinguishment for accounting purposes, it may result in any differences between the carrying value of the Existing Notes and the fair value less issue costs of Exchange Notes being recognised immediately in profit or loss.
- (7) The carrying value of the New Notes is presented at the fair value of U.S.\$334.8 million (which is equal to their issue price of 101.452% of principal amount) less estimated costs related to the issuance of the New Notes of U.S.\$5.4 million, which is equivalent to UAH 43.1 million, calculated at the rate of UAH 7.985 for 1 U.S. dollar.
- (8) Total capitalisation is total borrowings, net of short-term borrowings and the current portion of long-term borrowings, and total equity.
- (9) Except as described above and in “Description of Other Indebtedness”, there has been no material change in total capitalisation and indebtedness (including in respect of contingent liabilities and guarantees) of MHP since 31 December 2009.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows MHP's historical consolidated financial information as of 31 December 2007, 2008 and 2009 and for the years then ended. Such financial information in U.S. dollars has been derived from the Audited Consolidated Financial Statements and related notes included elsewhere in this Offering Memorandum and the hryvnia amounts have been derived from MHP's IFRS consolidation accounting system presented in hryvnia, which are translated into the numbers appearing in the Audited Consolidated Financial Statements pursuant to IAS 21. Such hryvnia amounts have not been derived from audited financial statements. This section should be read together with the Audited Consolidated Financial Statements and related notes included elsewhere in this Offering Memorandum, as well as together with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Year ended 31 December					
	2007		2008		2009	
	UAH	U.S.\$	UAH	U.S.\$	UAH	U.S.\$
	(unaudited)		(unaudited)	(unaudited)		(unaudited)
	(in thousands, except ratios)					
INCOME AND EXPENSES DATA:						
<i>Continuing Operations</i>						
Revenue	2,395,909	474,437	4,189,205	802,910	5,552,237	711,004
Net change in fair value of biological assets and agricultural produce	71,919	14,241	44,013	6,327	273,025	35,236
Cost of sales	(1,843,341)	(365,018)	(2,994,949)	(571,710)	(3,901,778)	(499,163)
Gross profit	624,487	123,660	1,238,269	237,527	1,923,484	247,077
Selling, general and administrative expenses	(260,573)	(51,599)	(424,264)	(80,495)	(632,398)	(80,972)
Government grants recognised as income	284,261	56,289	571,349	107,663	531,764	67,812
Other operating expenses	(36,737)	(7,275)	(56,215)	(10,022)	(118,720)	(15,209)
Other operating income	6,589	1,306	3,191	600	4,569	576
Operating profit before loss on impairment of property, plant and equipment	618,027	122,381	1,332,330	255,273	1,708,699	219,284
Loss on impairment of property plant and equipment ⁽¹⁾	(51,704)	(10,238)	(90,604)	(11,767)	(10,422)	(1,304)
Operating profit	566,323	112,143	1,241,726	243,506	1,698,277	217,980
Finance costs, net	(249,885)	(49,482)	(270,089)	(51,663)	(396,576)	(50,817)
Finance income	—	—	36,193	6,695	29,602	3,823
Foreign exchange losses, net	(65,950)	(13,059)	(1,176,614)	(187,127)	(184,048)	(23,580)
Other expenses	(3,707)	(734)	(3,705)	(784)	(5,390)	(712)
Gain realised from acquisitions and changes in minority interest in subsidiaries, net ⁽²⁾	6,487	1,285	21,709	4,482	41,684	5,413
Other income	3,379	669	6,524	1,085	11,014	1,408
Other expenses, net	(309,676)	(61,321)	(1,385,982)	(227,312)	(503,714)	(64,465)
Profit/(loss) before tax	256,647	50,822	(144,256)	16,194	1,194,563	153,515
Income tax (expense)/benefit	(2,161)	(428)	(6,739)	(1,279)	50,558	6,488
Profit/(loss) for the year from continuing operations⁽³⁾	254,486	50,394	(150,995)	14,915	1,245,121	160,003
<i>Discontinued Operations</i>						
Loss for the year from discontinued operations ⁽³⁾ , net of income tax	(18,182)	(3,601)	(69,926)	(9,722)	—	—
Net profit for the year	236,304	46,793	(220,921)	5,193	1,245,121	160,003
Attributable to:						
Equity holders of the parent	206,393	40,870	(240,285)	1,518	1,155,993	148,564
Minority interest	29,911	5,923	19,364	3,675	89,128	11,439
Earnings Per Share:						
From continuing operations						
Basic and diluted	2.25	0.44	(1.60)	0.11	10.44	1.34
From continuing and discontinued operations						
Basic and diluted	2.06	0.41	(2.25)	0.01	10.44	1.34

	Year ended 31 December					
	2007		2008		2009	
	UAH (unaudited)	U.S.\$	UAH (unaudited) (in thousands, except ratios)	U.S.\$	UAH (unaudited)	U.S.\$
BALANCE SHEET DATA (as of period end):						
Property, plant and equipment, net	3,155,028	624,756	3,985,241	517,564	5,012,012	627,678
Cash and cash equivalents	50,942	10,088	416,353	54,072	177,649	22,248
Total assets	<u>4,810,287</u>	<u>952,532</u>	<u>7,119,123</u>	<u>924,561</u>	<u>9,086,178</u>	<u>1,137,905</u>
Equity attributable to equity holders of the parent	2,053,966	408,034	2,589,475	332,511	3,820,301	474,624
Minority interest	64,034	11,372	76,398	13,706	127,551	19,784
Long-term bank borrowings	332,686	65,878	442,409	57,456	447,505	56,043
Bonds issued	1,230,198	243,604	1,901,150	246,903	1,980,646	248,046
Long-term finance lease and vendor financing obligations	154,215	30,538	369,383	47,972	355,696	44,546
CASH FLOW DATA:						
Net cash generated by operating activities	497,749	98,565	653,254	122,718	957,457	123,062
Net cash used in investing activities	(542,428)	(107,411)	(1,132,378)	(213,620)	(982,090)	(125,867)
Net cash (used in)/generated by financing activities	(128,676)	(25,481)	718,552	141,866	(218,533)	(28,176)
OTHER MEASURES:						
EBITDA from continuing operations ⁽⁴⁾	729,781	144,511	390,815	118,100	1,965,958	252,186
Adjusted EBITDA from continuing operations ⁽⁴⁾	841,276	166,588	1,633,505	312,211	2,113,120	270,961
Capital expenditures ⁽⁵⁾	865,120	171,311	1,293,336	247,774	1,328,827	170,913

Notes:

- (1) During the periods presented MHP recorded impairment losses on certain of its assets used in the production of its goose meat and foie gras operations, assets used in its convenience food business produced under the “Lehko!” brand, as well as administrative office premises. See Note 8 to the Audited Consolidated Financial Statements.
- (2) During each of the periods presented MHP recorded gains on acquisitions made from various third parties and on dilutions of minority interests. These gains occurred as the consideration paid was less than the fair value of the net assets acquired. See Note 2 to the Audited Consolidated Financial Statements.
- (3) During the year ended 31 December 2007 MHP discontinued its gas trading operations and during the year ended 31 December 2008 disposed of its shareholding in Kyivska. These operations were classified as discontinued operations and the financial statements for all periods have been restated to show all periods on a comparable basis.
- (4) EBITDA from continuing operations and Adjusted EBITDA from continuing operations are not measures of performance under IFRS. The Issuer defines EBITDA from continuing operations as profit or loss for the year from continuing operations before net finance costs, income taxes, depreciation and amortisation. Adjusted EBITDA from continuing operations is derived by adjusting EBITDA from continuing operations for foreign exchange gains and losses, net, loss on impairment of property, plant and equipment, gain realised from acquisitions and changes in minority interest in subsidiaries, net, other expenses and other income. The Issuer has made these adjustments to EBITDA from continuing operations as Management believes that these line items are not operational in nature and do not reflect the true nature of the business on a continuing basis and/(or) these line items are either non-recurring or unusual in nature. The Issuer has made these adjustments to present a clearer view of the performance of MHP’s underlying business operations and generate a metric that Management believes will give greater comparability over time. Management uses Adjusted EBITDA from continuing operations in MHP’s business operations to, among other things, assess MHP’s operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present similar measures when reporting their results.

EBITDA from continuing operations and Adjusted EBITDA from continuing operations do not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered by prospective investors to be an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund our future cash requirements. Also, because EBITDA from continuing operations and Adjusted EBITDA from continuing operations are not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies. These measures are unaudited.

Reconciliation of EBITDA and Adjusted EBITDA from continuing operations to profit from continuing operations is as follows:

	Year ended 31 December					
	2007		2008		2009	
	UAH (unaudited)	U.S.\$	UAH (unaudited) (in thousands, except ratios)	U.S.\$	UAH (unaudited)	U.S.\$
Profit/(loss) for the year from continuing operations	254,486	50,394	(150,995)	14,915	1,245,121	160,003
Finance costs, net	249,885	49,482	270,089	51,663	396,576	50,817
Finance income	—	—	(36,193)	(6,695)	(29,602)	(3,823)
Income tax expense/(benefit)	2,161	428	6,739	1,279	(50,558)	(6,488)
Depreciation and amortisation	223,249	44,207	301,175	56,938	404,421	51,677
EBITDA from continuing operations ^(a)	729,781	144,511	390,815	118,100	1,965,958	252,186
Adjustments:						
Foreign exchange losses, net	65,950	13,059	1,176,614	187,127	184,048	23,580
Other expenses	3,707	734	3,705	784	5,390	712
Other income	(3,379)	(669)	(6,524)	(1,085)	(11,014)	(1,408)
Gain realised from acquisitions and changes in minority interest in subsidiaries, net	(6,487)	(1,285)	(21,709)	(4,482)	(41,684)	(5,413)
Loss on impairment of property, plant and equipment	51,704	10,238	90,604	11,767	10,422	1,304
Adjusted EBITDA from continuing operations ^(a)	841,276	166,588	1,633,505	312,211	2,113,120	270,961

(a) Unaudited

- (5) Capital expenditures refer to purchases of property, plant and equipment, purchases of non-current biological assets and other non-current assets, including non-cash investments. Non-cash investments primarily represent finance leases and vendor financing arrangements on the purchase of trucks and other equipment and additions of property, plant and equipment financed through direct bank-lender payments to the vendor.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of MHP's financial condition and results of operations as at, and for the years ended, 31 December 2007, 2008 and 2009 should be read together with the Audited Consolidated Financial Statements and the notes thereto and the other information included elsewhere in this Offering Memorandum. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS. This section contains forward-looking statements that involve risks and uncertainties. MHP's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those discussed under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements".

Overview

MHP is one of the leading agro-industrial companies in Ukraine, focusing on the production of chicken meat and, to an increasing extent, the cultivation of various grains. MHP is the leading poultry company in Ukraine, accounting for approximately 43% of all chicken meat industrially produced in Ukraine in 2009, according to SCSU. MHP also has an important and expanding grain operation with what Management believes to be one of the largest agricultural land portfolios in Ukraine. In aggregate, MHP leases approximately 180,000 hectares of land for its operations, of which approximately 150,000 hectares are used in the grain growing segment for grain production, approximately 27,000 hectares are used in the other agricultural segment primarily for fruit orchards, as pasture for cattle and pigs and to grow grain for fodder for cattle and pigs, and approximately 3,000 hectares are used by the poultry and related operations segment. In addition, MHP produces and sells sunflower oil as a by-product of its fodder production, as well as sausages, cooked meats, convenience food products, goose meat, foie gras, beef and fruit.

MHP distributes its chicken products through its own branded franchise points of sale and on a wholesale basis directly to retailers, including supermarkets and hypermarkets, foodservice businesses and industrial producers. In 2009, MHP sold approximately 40% of its chicken and other meats through "Nasha Ryaba" branded franchise outlets, 40% to supermarkets and other retail chains and 20% to other retailers, including traditional independent shops and convenience stores. MHP currently exports its frozen chicken and convenience food products to the CIS, primarily Kazakhstan and Georgia, equal, in 2009, to approximately 4% of its volume of poultry and related products sold. MHP sells most of its chicken products under the "Nasha Ryaba" brand. MHP also sells convenience food products under the "Lehko!" and "Toropyshky" brands, premium beef under the "Certified Angus" brand, foie gras under the "Foie Gras" brand and sausages and cooked meat products under the "STOV Druzhba Narodiv", "Baschinsky" and "Europroduct" brands. MHP's other meat products are sold principally to retailers and supermarkets. MHP sells all of the rapeseed it produces and approximately 50% of the wheat it produces to Ukraine-based traders for export using forward-dated contracts denominated in U.S. dollar, with the remaining portion of wheat sold through the spot markets in Ukraine and insignificant amounts used for fodder production.

MHP's business is divided into the following three segments:

- *Poultry and related operations*—This segment, comprising the production and sale of chicken meat products, sunflower oil, mixed fodder and convenience food products, had revenues in 2009 of UAH 4,505.2 million (U.S.\$577.1 million), or 81% of MHP's total revenues both in hryvnia and U.S. dollar terms. This amount excludes intersegment sales in 2009 of UAH 174.8 million (U.S.\$22.4 million).
- *Grain Growing*—This segment, comprising the production and sale of feed grains to third parties, had revenues in 2009 of UAH 360.3 million (U.S.\$45.8 million), or 6% in hryvnia terms (6% in U.S. dollar terms) of MHP's total revenues. This amount excludes intersegment sales in 2009 of UAH 293.5 million (U.S.\$37.7 million) relating to the sale of grain, principally corn, used in MHP's poultry production. If internal sales were not eliminated, this segment would have represented approximately 11% of MHP's total revenues in hryvnia terms.
- *Other agricultural operations*—This segment comprises the production and sale of sausages and cooked meats produced by Druzhba and Ukrainian Bacon as well as sales of goose meat, foie gras, beef and fruits. Other agricultural operations generated revenues in 2009 of UAH 686.7 million (U.S.\$88.1 million), or 12% (both in hryvnia and U.S. dollar terms) of MHP's total revenues. This amount excludes intersegment sales in 2009 of UAH 11.7 million (U.S.\$1.5 million).

During the years under review, MHP has generally operated its chicken production facilities at full capacity and increased revenues have generally resulted from increases in production capacity and improved production efficiency, permitting significant volume increases year on year. During the year ended 31 December 2009, in hryvnia terms, MHP's functional currency, the Group's key financial indicators generally increased year-on-year compared to the year ended 31 December 2008. In 2008, MHP adopted the U.S. dollar as its reporting currency, although the hryvnia remains its functional currency. The deterioration of certain financial indicators in U.S. dollar terms was due to the rapid devaluation of the hryvnia against the U.S. dollar during the fourth quarter of 2008, which resulted in the hryvnia's depreciation by 53% against the U.S. dollar, based on the exchange rate as at the end of 2008 as compared to the exchange rate as at the end of 2007, and depreciation by 48% against the U.S. dollar, based on the average exchange rate during 2009 as compared to the average exchange rate in 2008 (in 2008 the average exchange rate was UAH 5.27 to one U.S. dollar, and in 2009 the average exchange rate was UAH 7.79 to one U.S. dollar). As a result, profit and loss indicators for 2007, 2008 and 2009 were calculated at significantly different exchange rates.

For the years ended 31 December 2007, 2008 and 2009, MHP had total revenue of UAH 2,395.9 million (U.S.\$474.4 million), UAH 4,189.2 million (U.S.\$802.9 million) and UAH 5,552.2 million (U.S.\$711.0 million), respectively. Net profit decreased to a loss of UAH 151.0 million (a profit of U.S.\$14.9 million) in 2008 from UAH 254.5 million profit (a profit of U.S.\$50.4 million) in 2007 mainly due to foreign exchange non-cash losses on MHP's borrowings in U.S. dollars and euro (as at 31 December 2008, 100% of total borrowings of UAH 3,882.3 (U.S.\$504.2 million) was denominated in U.S. dollars or euro) of UAH 1,176.6 million (U.S.\$187.1 million) in 2008 attributable to the hryvnia's depreciation against the U.S. dollar and the euro. In 2008, MHP's net profit was effectively a loss in hryvnia terms of UAH 151.0 million and effectively a profit in U.S. dollar terms of U.S.\$14.9 million because the hryvnia exchange rate fluctuated significantly during 2008 with a rapid devaluation in the fourth quarter of 2008. However, significant profits were generated in the first three quarters of 2008 when the hryvnia exchange rate was stronger (and thus generated more profits when expressed in U.S. dollars at average exchange rates). For the year ended 31 December 2009, net profit increased to UAH 1,245.1 million (U.S.\$160.0 million), principally due to relatively stable exchange rates in 2009 leading to lower foreign exchange losses compared to the unusually high foreign exchange losses in 2008, as well as an increase in volumes and prices for chicken meat and increased prices for grains. In hryvnia terms, MHP's gross profit margin continuously increased from 26.1% in 2007 to 29.6% in 2008 and further to 34.6% in 2009 (in U.S. dollar terms 26.1%, 29.6% and 34.8%, respectively). This increase was largely achieved as a result of volume increases and related economies of scale, increased vertical integration in MHP's poultry business and strong performance of its grain growing segment in 2009 due to higher grain prices and harvested volumes, especially corn yields, than in 2008. Adjusted EBITDA margin increased in hryvnia terms from 35.1% in 2007 to 39.0% in 2008 and remained stable at 38.1% in 2009 (in U.S. dollar terms 35.1%, 38.9% and 38.1%, respectively).

The table below sets out MHP's total revenue, net profit and gross profit margin for the years ended 31 December 2007, 2008 and 2009 in hryvnia terms and in U.S. dollar terms.

	Year ended 31 December					
	2007	2008	2009	2007	2008	2009
	(UAH, except percentages) (unaudited)			(U.S.\$, except percentages)		
Total revenue (in millions)	2,395.9	4,189.2	5,552.2	474.4	802.9	711.0
Profit/(loss) for the year from continuing operations (in millions)	254.5	(151.0)	1,245.1	50.4	14.9	160.0
Gross profit margin	26.1%	29.6%	34.6%	26.1%	29.6%	34.8%
Adjusted EBITDA margin ⁽¹⁾	35.1%	39.0%	38.1%	35.1%	38.9%	38.1%

(1) Unaudited

MHP's chicken sales volume increased from approximately 170,000 tonnes of adjusted weight in 2007, to 215,000 tonnes in 2008 and to 272,900 tonnes in 2009. MHP significantly expanded its chicken production facilities during the years under review through the construction of one of the largest poultry facilities in Europe—the Myronivka chicken farm in the Cherkasy region with an annual production capacity of approximately 200,000 tonnes of chicken meat. Following the completion of the Myronivka project in June 2009, MHP's aggregate monthly poultry production increased by 47% from approximately 18,700 tonnes in early 2009 to approximately 27,500 tonnes in September 2009. Management believes

demand for poultry meat will continue to expand in Ukraine as the economy stabilises and improves and Ukrainian meat consumption continues to approach that of other European economies. With Myronivka operating at full capacity, MHP's annual poultry production capacity has reached approximately 330,000 tonnes which will enable a projected 16% increase in production in 2010 over 2009 production levels. The adjusted EBITDA margin increased from 35.1% in hryvnia terms in 2007 to 39.0% in 2008 (in U.S. dollar terms from 35.1% to 38.9%, respectively), primarily due to the increase in prices for chicken meat and the concurrent decrease in grain prices, and remained high at 38.1% in 2009 notwithstanding the decrease in government grants, which resulted from no longer receiving direct grants for the processing of live animals in 2009 (see “—External Factors Affecting MHP's Results of Operations—Fluctuations in Market Price for Chicken Products”, “—External Factors Affecting MHP's Results of Operations—Fluctuations in Grain Prices” and “—External Factors Affecting MHP's Results of Operations—State Support for Agricultural Production in Ukraine—Government Grants” below).

Functional and Presentation Currency

The functional currency of MHP is the Ukrainian hryvnia (“UAH” or “hryvnia”). Transactions in currencies other than the hryvnia are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than hryvnia are translated at the rates prevailing on the balance sheet date. All realised and unrealised gains and losses arising on exchange differences between the hryvnia and any other currency are included in the profit or loss for the relevant period.

Starting from the 2008 financial year, the Group changed its presentation currency to U.S. dollars. The decision was made because, in Management's judgment, presenting financial statements in U.S. dollars improves the understanding of the Group's financial position and performance by users, given the sharp devaluation of Ukrainian hryvnia in the fourth quarter of 2008. Management also concluded that the application of various translation methodologies, including convenience translations, would not have provided such improvement in understanding.

MHP's consolidated financial statements are presented in U.S. dollars (“USD”, “U.S.\$” or “U.S. dollars”), which is the Group's presentation currency.

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”, the results and financial position of MHP are translated from hryvnia into U.S. dollars for presentation purposes using the following procedures:

- Assets and liabilities for each consolidated balance sheet presented are translated at the closing exchange rate as at the date of that balance sheet.
- Income and expenses for each consolidated statement of comprehensive income presented are translated at exchange rates prevailing on the dates of the transactions.
- All resulting exchange differences are recognised in other comprehensive income.

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

As a result of the translation methodology used for the items of income and expenses, percentages relating to U.S. dollar numbers are not necessarily the same as the percentages relating to the equivalent UAH numbers included in this section. In addition, this translation methodology gives rise to a different result than if the income and expenses statements had been translated at a single current exchange rate, as in a convenience translation.

As a result of the above described approach by MHP to functional and presentation currencies, the numbers included in this discussion and analysis of financial condition and results of operations are, as appropriate, presented in both U.S. dollars and UAH. In the analysis of revenue and expenses, a discussion of the underlying hryvnia movements, as MHP's functional currency, is particularly important to understand the movements and trends in MHP's business, which are then subject to a consequential translation effect (in accordance with IAS 21) when viewed in U.S. dollars. The discussion of movements in liquidity and capital resources, cash flow, capital expenditure and other balance sheet-related items are discussed only in U.S. dollar terms, as MHP's reporting currency is U.S. dollars, which management believes appropriately reflects the respective trends of such line items, although these line items were also significantly impacted by the sharp depreciation of the hryvnia against the U.S. dollar in the fourth quarter

of 2008. U.S. dollar numbers are derived from the Audited Consolidated Financial Statements and from the underlying accounting records of MHP. The hryvnia amounts have been derived from the following sources: (a) certain numbers are derived from MHP's IFRS consolidation accounting system, presented in hryvnia, which are translated into the numbers appearing in the Audited Consolidated Financial Statements pursuant to IAS 21, (b) certain numbers not derived from MHP's IFRS consolidation accounting system are derived from the underlying accounting records of MHP and (c) all other information (other than numbers derived from MHP's IFRS consolidation accounting system or the underlying accounting records of MHP) has been translated into U.S. dollars at a conversion rate of UAH 7.93 to U.S.\$1.00, which was the rate published by the National Bank of Ukraine ("NBU") on 31 March 2010. Such hryvnia amounts have not been derived from audited financial statements.

The principal factor affecting the translation during the periods under review and consequentially the comparability of the financial statements in U.S. dollars has been the significant devaluation of the hryvnia as against the U.S. dollar in the fourth quarter of 2008.

Discontinued Operations

In accordance with IFRS and the accounting policies adopted by MHP the Audited Consolidated Financial Statements reflect discontinued operations and present the results for continuing operations separately from the results of the operations which have been discontinued. See Note 6 to the Audited Consolidated Financial Statements. In the period under review two business operations were discontinued:

- In March 2007, MHP discontinued its natural gas trading operations which comprised the purchase of gas from gas traders and reselling the majority to third parties, while utilising a small proportion in its own chicken production operations. MHP's natural gas trading operations accounted for revenue of UAH 44.8 million (U.S.\$8.9 million) and a net loss of UAH 0.5 million (U.S.\$0.1 million) in 2007, which have been excluded from continuing operations; and
- In December 2008, MHP sold its stake in Kyivska for U.S.\$1.0 million, which was principally involved in cattle breeding and production of potatoes. Kyivska accounted for revenue of UAH 16.2 million (U.S.\$3.2 million) and UAH 20.4 million (U.S.\$3.9 million) and a loss of UAH 17.7 million (U.S.\$3.5 million) and UAH 21.1 million (U.S.\$3.5 million) in 2007 and 2008, respectively. The loss on the disposal of Kyivska was UAH 48.8 million (U.S.\$6.2 million).

See "—Acquisitions and Disposals".

Segments and Intragroup Transactions

Intragroup transactions amongst MHP's three segments are eliminated in MHP's consolidated statement of comprehensive income. Due to the high level of vertical integration within MHP's operations, there are a significant number of transactions between companies in the Group.

The most significant category of intersegment sales is the grain growing segment's sales of grain for fodder production primarily to the poultry and related operations segment. MHP is entirely self-sufficient for its corn requirements and meets approximately 15% of its needs for sunflower seeds from internal production. Intersegment sales amounted to UAH 293.5 million (U.S.\$37.7 million), UAH 103.7 million (U.S.\$17.7 million) and UAH 152.4 million (U.S.\$30.2 million) in 2009, 2008 and 2007, respectively. The significant fluctuations in intersegment sales were mainly attributable to a drop in grain prices in late 2008 and a subsequent increase during 2009, along with greater demand for internally produced grain in 2009 due to completion of the Myronivka chicken complex.

Upon consolidation, intersegment sales and purchases are eliminated so that revenue is reduced and the related costs are transferred from the selling to the purchasing segment. In this discussion and analysis, amounts based on the consolidated statements of comprehensive income are presented after eliminations of intersegment transactions, and amounts reflecting segment results are presented before eliminations of intersegment transactions, unless otherwise indicated.

As part of its vertical integration strategy and in order to reduce production costs, MHP operates sunflower seed crushing plants, which produce sunflower protein, one of the major components of the mixed fodder MHP uses in its poultry farms. MHP uses a particular technology that increases the amount of sunflower protein it produces from sunflower seeds. MHP purchases sunflower seeds from Ukrainian suppliers and also meets approximately 15% of its needs for sunflower seeds from internal production by the grain growing segment. The use of sunflower protein as a substitute for imported soy protein has

reduced MHP's fodder production costs. The extracted sunflower oil is sold to third parties as a by-product. In addition, MHP produces a significant portion of hatching eggs it requires and Management expects MHP to be fully self-sufficient during the second half of 2010.

Segment results represent operating profit before loss on impairment of property, plant and equipment, 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:

	Year ended 31 December 2009									
	Poultry and related operations	Other agricultural operations	Grain growing operations	Eliminations	Consolidated	Poultry and related operations	Other agricultural operations	Grain growing operations	Eliminations	Consolidated
	(UAH'000) (unaudited)			(U.S.\$'000)						
External sales	4,505,233	686,731	360,273	—	5,552,237	577,143	88,109	45,752	—	711,004
Sales between business segments	174,792	11,656	293,472	(479,920)	—	22,438	1,496	37,673	(61,607)	—
Total revenue	4,680,025	698,387	653,745	(479,920)	5,552,237	599,581	89,605	83,425	(61,607)	711,004
Segment results	1,531,584	25,372	276,751	—	1,833,707	196,594	3,234	35,301	—	235,129
<i>Add back</i>										
Depreciation	290,152	42,538	71,731		404,421	37,193	5,473	9,011		51,677
Segment Adjusted EBITDA before unallocated expenses⁽¹⁾	1,821,736	67,910	348,482		2,238,128	233,787	8,707	44,312		286,806

	Year ended 31 December 2008									
	Poultry and related operations	Other agricultural operations	Grain growing operations	Eliminations	Consolidated	Poultry and related operations	Other agricultural operations	Grain growing operations	Eliminations	Consolidated
	(UAH'000) (unaudited)			(U.S.\$'000)						
External sales	3,443,074	490,955	255,176	—	4,189,205	660,031	93,102	49,777	—	802,910
Sales between business segments	104,655	6,016	103,735	(214,406)	—	20,362	1,268	17,653	(39,283)	—
Total revenue	3,547,729	496,971	358,911	(214,406)	4,189,205	680,393	94,370	67,430	(39,283)	802,910
Segment results	1,345,926	(7,036)	51,702	—	1,390,592	255,165	184	10,739	—	266,088
<i>Add back</i>										
Depreciation	213,115	38,043	50,017		301,175	41,230	7,383	8,325		56,938
Segment Adjusted EBITDA before unallocated expenses⁽¹⁾	1,559,041	31,007	101,719		1,691,767	296,395	7,567	19,064		323,026

	Year ended 31 December 2007									
	Poultry and related operations	Other agricultural operations	Grain growing operations	Eliminations	Consolidated	Poultry and related operations	Other agricultural operations	Grain growing operations	Eliminations	Consolidated
	(UAH'000) (unaudited)			(U.S.\$'000)						
External sales	1,943,567	257,966	194,376	—	2,395,909	384,865	51,082	38,490	—	474,437
Sales between business segments	54,319	2,892	152,419	(209,630)	—	10,756	573	30,182	(41,511)	—
Total revenue	1,997,886	260,858	346,795	(209,630)	2,395,909	395,621	51,655	68,672	(41,511)	474,437
Segment results	495,705	20,175	145,059	—	660,939	98,159	3,995	28,725	—	130,879
<i>Add back</i>										
Depreciation	167,670	28,888	26,691		223,249	33,201	5,721	5,285		44,207
Segment Adjusted EBITDA before unallocated expenses⁽¹⁾	663,375	49,063	171,750		884,188	131,360	9,716	34,010		175,086

(1) Unaudited

The summary below reflects segment Adjusted EBITDA for the years ended 31 December 2007, 2008 and 2009:

	Year ended 31 December					
	2007	2008	2009	2007	2008	2009
		(UAH'000)		(unaudited)	(U.S.\$'000)	
Segment Adjusted EBITDA before unallocated expenses:						
Poultry and related operations	663,375	1,559,041	1,821,736	131,360	296,395	233,787
% of total segment revenue	33.2%	43.9%	38.9%	33.2%	43.6%	39.0%
Grain growing operations	171,750	101,719	348,482	34,010	19,064	44,312
% of total segment revenue	49.5%	28.3%	53.3%	49.5%	28.3%	53.1%
Other agricultural operations	49,063	31,007	67,910	9,716	7,567	8,707
% of total segment revenue	18.8%	6.2%	9.7%	18.8%	8.0%	9.7%
Unallocated expenses	(42,912)	(58,262)	(125,008)	(8,498)	(10,815)	(15,845)
Adjusted EBITDA	841,276	1,633,505	2,113,120	166,588	312,211	270,961
% of total revenue	35.1%	39.0%	38.1%	35.1%	38.9%	38.1%

Management believes that the prices at which products are sold amongst its segments are generally consistent with average market prices and therefore reflect actual segment results whilst also complying with the relevant Ukrainian transfer pricing rules. See “Risk Factors—Risks Relating to MHP—MHP’s intragroup transactions and other related party transactions are subject to Ukrainian transfer pricing regulations”.

External Factors Affecting MHP’s Results of Operations

Macroeconomic Conditions in Ukraine

MHP’s business is, to a large extent, dependent on Ukraine’s general economy. Approximately 78% of MHP’s revenue both in hryvnia and U.S. dollar terms in 2009 was from sales in Ukraine. After seven years of growth in real GDP and increases in household incomes up to September 2008, in the fourth quarter of 2008 and 2009 the economy was significantly affected by the worldwide recession, leading to the sharp devaluation of the hryvnia in the fourth quarter of 2008, resulting in the depreciation of the hryvnia by 52.5% against the U.S. dollar and 46.3% against the euro based on the exchange rates at the end of 2008 compared to the exchange rates at the end of 2007. See “Risk Factors—Risks relating to MHP—MHP is exposed to currency exchange rate risk” and “—Fluctuations in Currency Exchange Rate” below. Against the background of growing unemployment and partial employment, as well as the depreciation of the hryvnia, real household incomes deteriorated significantly starting in 2008 and continuing throughout 2009. However, analysts, including the Accounting Chamber of Ukraine, believe that a part of the decrease shown in the statistics is attributable to a shift from the formal measured economy to the “shadow” economy. It is estimated by the Accounting Chamber of Ukraine that the informal sector represents 40% of GDP in 2009.

Since the recent presidential election, where the results were contested by the Yulia Tymoshenko Bloc party, the political situation in Ukraine appears to have stabilised following Viktor Yanukovich’s formation of a new government. Although macroeconomic conditions in Ukraine remain challenging, with high levels of unemployment and continuing inflation, there are some positive trends in the country’s economic situation:

- According to SCSU, the inflation rate, measured by the consumer price index, decreased to 12.3% in 2009 owing to weak domestic demand, and lower global commodity prices, after domestic consumption growth drove inflation to 22.3% and 16.6% in 2008 and 2007, respectively.
- According to SCSU, by the end of 2009, Ukrainian industry had started to come out of recession. The rate of decline of industrial output decreased quarter-on-quarter during 2009 and the agricultural sector is the only sector of the Ukrainian economy that showed sustainable growth during 2008 and 2009 compared to the period before the economic crisis (2007 and the first three quarters of 2008). Agricultural production measured as real agricultural GDP grew by 0.1% in 2009, in contrast to a 21.9% decrease in industrial production and a 15.1% decrease in real GDP.

The tables below set out the principal macroeconomic indicators for Ukraine for the years ended 31 December 2007, 2008 and 2009.

	Year ended 31 December		
	2007	2008	2009
Real GDP (% change) ⁽¹⁾	7.6%	2.3%	(15.1)%
Nominal GDP (% change) ⁽²⁾	32.5%	31.8%	(8.4)%
Consumer price index ⁽³⁾	16.6%	22.3%	12.3%
Real household income growth (decrease) ⁽⁴⁾	14.8%	9.6%	(4.0)%
Real GDP in agricultural sector (% change)	(6.5)%	17.1%	0.1%
Real GDP in industrial sector (% change)	10.2%	(3.1)%	(21.9)%
Appreciation (devaluation) of the hryvnia against the U.S. dollar (based on end of period exchange rate) ⁽⁵⁾	0%	(52.5)%	(3.7)%
Appreciation (devaluation) of the hryvnia against the euro based on end of period exchange rate) ⁽⁵⁾	(11.2)%	(46.3)%	(5.5)%
Appreciation (devaluation) of the hryvnia against the U.S. dollar (based on average for the period exchange rate) ⁽⁶⁾	0%	(4.4)%	(47.8)%
Appreciation (devaluation) of the hryvnia against the euro (based on average for the period exchange rate) ⁽⁶⁾	0%	(11.4)%	(41.0)%
UAH/\$ (end of period)	5.05	7.7	7.99
UAH/€ (end of period)	7.36	10.86	11.45
UAH/\$ (average for the period)	5.05	5.27	7.79
UAH/€ (average for the period)	6.92	7.71	10.87

Source: SCSU, EIU.

Notes:

Real GDP is an inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices, whereas nominal GDP is a figure that has not been adjusted for inflation

- (1) The SCSU calculates real GDP for a particular year by dividing nominal GDP for such year by the relevant consumer price index. The real GDP percentage change for a particular year indicates the percentage change compared to the previous year.
- (2) Not adjusted to account for changes in the consumer price index.
- (3) The consumer price index is the change in weighted prices for consumer goods and services compared to the last month of the previous year.
- (4) Real household income growth is the percentage growth in real household income as compared to the previous year.
- (5) Assets and liabilities for MHP's consolidated balance sheets presented are affected by devaluation of the hryvnia based on the end of period exchange rate, because they are translated at the closing rate as at the date of each balance sheet.
- (6) Income and expenses for MHP's consolidated statements of comprehensive income presented are affected by devaluation of the hryvnia based on the historic exchange rate prevailing at the date of the transaction or the average exchange rate for the quarter. Annual average rates are presented in this table for information, but do not represent actual rates used to translate MHP's consolidated statements of comprehensive income. See "—Functional and Presentation Currency" above.

	For the period from 31 December 2008 through			
	31 March 2009	30 June 2009	30 September 2009	31 December 2009
Real Agricultural GDP (cumulative % change to the same period in the previous year)	1.7%	2.6%	3.3%	0.1%
Real Industrial GDP (cumulative % change to the same period in the previous year)	(31.9)%	(31.1)%	(28.4)%	(21.9)%

Source: SCSU.

The IMF has made a significant contribution to the stabilisation of the hryvnia by providing Ukraine with a stand-by loan programme. In accordance with the terms of the programme, Ukraine has already received three tranches of loans with the fourth one delayed until after completion of discussions on economic policies between the IMF and the new government. Although the current account deficit is improving because of increased inflows of foreign currency due to exports and the macroeconomic

situation is beginning to stabilise with a positive effect on exchange rates, the level of the budget deficits, limited financing options available to the government of Ukraine and its reliance on IMF support means that macroeconomic deterioration could still occur and that there could be a further devaluation of the hryvnia against the U.S. dollar and euro.

Inflation

Inflation rates during the period under review were 16.6%, 22.3% and 12.5% in 2007, 2008 and 2009, respectively. Overall, MHP believes the impact of inflation on its expenses is not as significant as the headline inflation rate and that its expenses are driven primarily by world prices for grain, energy prices, which have recently increased significantly as a result of renegotiated gas supply agreements with Russia, and imported components for fodder and breeder flocks. See “—Fluctuations in Currency Exchange Rate” and “—Fluctuations in Grain Prices” below. Given that the prices for these inputs are largely denominated in, or based upon prices in, U.S. dollars or euro, the impact in hryvnia terms has been significantly affected by the devaluation of the hryvnia against these currencies, as discussed in “—Fluctuations in Currency Exchange Rates” below. The impact of these increases had been mitigated by the increased benefits from vertical integration and improved efficiencies following the completion of the Myronivka chicken farm. During the period under review, MHP has benefited from increases in prices of its principal product sold to third parties, chicken meat. The average sales price (excluding VAT) for MHP’s chicken products (on an adjusted weight basis) was UAH 8.37 (U.S.\$1.70) per kilogram, UAH 12.03 (U.S.\$2.30) per kilogram and UAH 12.79 (U.S.\$1.64) per kilogram in 2007, 2008 and 2009, respectively. The principal reasons for the price increases from 2007 to 2008 were increasing disposable income (prior to the global financial crisis which impacted Ukraine in the fourth quarter of 2008), strong demand for chicken and an increase in world prices for chicken, which, due to approximately 20% of imports of chicken into Ukraine, positively benefits prices for chicken. In 2009, prices increased slightly in hryvnia terms due to the continued strong demand for chicken but decreased in U.S. dollar terms as a result of the depreciation of the hryvnia against the U.S. dollar. The other significant components of MHP’s revenue, sunflower oil and grain, are determined by reference to world prices which are unrelated to the inflation rate in Ukraine. Similarly, although labour costs are an important component of MHP’s costs, increases have been negotiated without reference to and below headline inflation rates. As a result, MHP believes that, during the period under review, inflation rates in Ukraine have had a relatively minor indirect impact on MHP’s financial results as compared to various other external factors affecting results of operations, but there can be no guarantee that inflation will not have a significant impact on MHP’s financial results in the future.

Fluctuations in Currency Exchange Rate

MHP’s operating assets are located in Ukraine and denominated primarily in hryvnia and its revenues and costs are also denominated primarily in hryvnia (although certain of those revenues and costs are correlated to the U.S. dollar prices of various grain commodities). The functional currency of the Group is hryvnia, but its reporting currency is U.S. dollars. See “—Functional and presentation currency” above. Accordingly, any changes in hryvnia and U.S. dollar exchange rates significantly impact the financial statements of MHP when viewed in U.S. dollars, as compared to those statements viewed in hryvnia, as its functional currency. Although, in general, the Group’s financial indicators have increased in hryvnia terms, the Group’s operating profits have decreased in U.S. dollar terms in line with the depreciation of the hryvnia against the U.S. dollar. In addition, MHP’s bank borrowings and bonds issued are mostly foreign currency denominated, which has led to a further deterioration of net profit given the increased amount of hryvnia required to meet such obligations and has led to a deterioration of equity due to such reduced net profit. The Group recognised mostly non-cash foreign exchange losses in the amount of UAH 1,176.6 million (U.S.\$187.1 million) and UAH 184.0 million (U.S.\$23.6 million) in the consolidated statement of comprehensive income in 2008 and 2009, respectively, and U.S.\$229.0 million and U.S.\$15.8 million decreases in equity due to the cumulative translation differences effect in 2008 and 2009, respectively. In addition, foreign currency rate fluctuations impact the prices MHP has to pay in hryvnia for certain of its inputs, in particular, corn and sunflower seeds, which although purchased in hryvnia, are correlated to world prices denominated in U.S. dollars. The negative effect of a devaluation of the hryvnia against the U.S. dollar was partially offset by sales of sunflower oil and various grains, which were correlated to world prices in U.S. dollars. MHP is further impacted as a result of the fact that the price of chicken meat in Ukraine tends to correlate to U.S. dollar-denominated global prices for chicken meat. See “—Fluctuations in Market Price for Chicken Products”. As a result, exchange rate movements between the U.S. dollar and the hryvnia have an impact on the price at which MHP sells its chicken products.

MHP's foreign currency revenues consist principally of revenues from export sales of sunflower oil and grain, which accounted for 65.8% and 19.7%, respectively, of MHP's total export sales in 2009, and increased significantly year-on-year during the periods under review. The increase in MHP's foreign currency revenues from UAH 640.4 million (U.S.\$120.8 million) in 2008 to UAH 1,202.2 million (U.S.\$152.9 million) in 2009 was mainly attributable to an increase in the volume of sunflower oil sales and the commencement of grain export in 2009, together with an increase both in the volume and price of grain sales in 2009, supported by the devaluation of the hryvnia against the U.S. dollar and euro.

MHP's foreign currency expenditures consist principally of the cost of purchasing breeder flocks, non-grain components for mixed fodder, production equipment and finance costs. From a cash-flow perspective, MHP's exposure to currency exchange rate fluctuations as a result of its foreign currency payments is partially offset by its U.S. dollar revenues from export sales of sunflower oil and grain, which have been sufficient in 2009 to cover foreign currency-denominated finance costs, loans repayments and import purchases for operational activities, including breeder flocks and non-grain components for mixed fodder but not MHP's foreign currency denominated capital expenditure requirements.

As at 31 December 2009, approximately UAH 2,641.4 million (U.S.\$330.8 million), or 100% of the aggregate principal amount of MHP's long-term bank borrowings and bonds issued (including the current portion), were denominated in currencies other than the hryvnia: approximately 75% were U.S. dollar-denominated and approximately 25% were euro-denominated. MHP's short-term bank borrowings balance of UAH 903.1 million (U.S.\$113.1 million) at 31 December 2009 was denominated in U.S. dollar (83%) and hryvnia (17%). In total, as at 31 December 2009, 95% of MHP's borrowings were denominated in foreign currencies.

In accordance with market practice and certain regulatory restrictions in Ukraine, MHP does not use any financial instruments to hedge against currency exchange rate fluctuations.

Interest Rates

Although approximately 71% in both hryvnia and U.S. dollar terms of MHP's total indebtedness provide for fixed rate interest payments, MHP is exposed to interest rate fluctuation risk on its variable-interest-rate borrowings. The amount of MHP's outstanding bank borrowings bearing a floating rate as at 31 December 2009 was UAH 1,185.3 (U.S.\$148.4 million) representing 76% in both hryvnia and U.S. dollar terms of its bank borrowings. MHP's floating-rate indebtedness has generally been tied to the London InterBank Offered Rate ("LIBOR") and the Euro InterBank Offered Rate ("EURIBOR"). See "—Liquidity and Capital Resources—Capital Resources". Consequently, fluctuations in LIBOR and EURIBOR resulted in corresponding fluctuations in MHP's finance costs related to its floating-rate borrowings, which in turn had an impact on MHP's results of operations during the period under review.

The table below sets forth the rates of one year U.S. dollar LIBOR and one year EURIBOR as at 31 December 2007, 2008 and 2009.

	As at 31 December		
	2007	2008	2009
One year U.S. dollar LIBOR ⁽¹⁾	4.2%	2.0%	0.9%
One year EURIBOR ⁽²⁾	4.7%	3.0%	1.2%

Sources:

- (1) The British Bankers Association.
- (2) The European Banking Federation.

Consistent with other companies in Ukraine, MHP's average cost of borrowing is relatively high, with finance costs representing approximately 23% in both hryvnia and U.S. dollar terms of operating profit and with the weighted average interest rates for bank borrowing (both long and short term) being as follows:

	2007	2008	2009
EUR—Foreign Banks	3.24%	5.43%	4.77%
USD—Ukrainian Banks	8.86%	6.78%	8.71%
UAH—Ukrainian Banks	23.82%	—	12.51%

MHP's most significant non-bank borrowings are the U.S.\$250 million Existing Notes due in 2011, which bear a fixed interest rate of 10.25%. Although MHP's cost of borrowings has increased in hryvnia

terms, especially in 2009, due to the devaluation of the hryvnia against the U.S. dollar and euro and the high hryvnia and U.S. dollar interest rates charged by Ukrainian banks, this has been offset to a minor extent by a decrease in floating interest rates linked to EURIBOR since the fourth quarter of 2008. In the first quarter of 2010 interest rates charged by Ukrainian banks have reduced as the economic position in Ukraine has improved. See “—Liquidity and Capital Resources—Capital Resources” below.

Fluctuations in Demand for Chicken Products

In line with MHP’s expectations, the demand for chicken meat remained strong during the period under review, including following the material downturn in the economy and despite a reduction in disposable income in Ukraine in 2009. According to GfK and MHP’s calculations based on the GfK and SCSU data, per capita consumption of chicken meat increased to 23 kilograms in 2009 from 18 kilograms in 2007 and 22 kilograms in 2008. This indicates a positive change for MHP in consumer buying habits; instead of buying expensive, mostly imported meat—pork and beef retail at 50% more than chicken—consumers are increasingly choosing to buy locally-produced chicken. MHP’s chicken sales volume increased from 172,170 tonnes of adjusted weight in 2007, to 215,000 tonnes in 2008 and to 272,900 tonnes in 2009, leading to an increase in MHP’s market share of industrially produced chicken meat from 39% in 2008 to 43% in 2009. MHP was able to operate its facilities at virtually full capacity and sell almost all of the chicken meat produced even taking into account the opening of the final phase of the Myronivka chicken farm which increased MHP’s aggregate monthly poultry production from approximately 18,700 tonnes in early 2009 to approximately 27,500 tonnes in September 2009.

As the feed grain consumption per kilogram of live weight of poultry is much lower than that for beef, pork and other protein alternatives, poultry is significantly less expensive to produce. Management believes that the comparatively lower market price for chicken is a significant factor in maintaining higher demand for chicken relative to such alternative products. Management believes that demand for chicken products in Ukraine will increase further from its current level due to a number of factors, including the relatively low per capita consumption of meat in Ukraine compared with other European countries, the replacement by consumers of other types of meat with poultry, and the undersupply and resulting higher prices for other types of meat (such as pork and beef) in Ukraine. See “Industry Overview—Overview of the Ukrainian Markets for Meat Products—Poultry Consumption in Ukraine”.

Although, the level of demand for chicken products in Ukraine has increased during the period under review, demand does fluctuate during the year for various reasons including, amongst others, seasonality, price, changes in consumer preferences, supply and price levels of other types of meat (such as beef and pork). Management believes that there is high price elasticity of demand in the Ukrainian market for chicken products and that a modest price reduction generally results in a strong increase in demand.

In a typical year, the demand for chicken products reaches its peak during the summer months, followed by a decrease in demand in winter. However, MHP has a relatively continuous production cycle as is typical for the production of poultry and livestock. In response to seasonal and other short-term decreases in the demand for chicken products and because of the high price elasticity for chicken meat, MHP reduces its prices so as to try to manage and stimulate demand, which allows it to continue to operate its production facilities at close to full capacity and to sell all of the chicken products it produces. In addition, MHP seeks to mitigate the effects of short-term decreases in demand by freezing and storing some of its chicken meat and selling it later as frozen chicken products, which can generally be stored for up to six months. MHP also reduces the effects of short-term decreases in demand by processing more chicken meat as convenience food, which can be stored for longer periods of time, and which is less susceptible than chilled chicken products to seasonal fluctuations in demand. The impact on the timing of MHP’s cash flows due to freezing and processing chicken into convenience food is not significant, and stocks of poultry and related operations remain principally at the same level over the year.

Closing stocks of chicken products at year-end 2007, 2008 and 2009 amounted to approximately 5,200 tonnes, 3,500 tonnes and 4,900 tonnes, respectively, and represented 22%, 16% and 17% of the respective December production volume. MHP believes that these balances were attributable almost entirely to seasonality and were substantially sold during the first quarters of 2008, 2009 and 2010, respectively. The volumes of chicken meat sold since 1 January 2010 are in line with the seasonal norms. MHP is currently operating its chicken production facilities at full capacity. See “Business—Overview of Operations—Poultry and Related Operations—New Production Facilities for Chicken Operations”. For information regarding market demand during the first quarter of 2010, see “—Recent Trends and Developments” below.

Management believes that the factors which are expected to increase demand for chicken products in Ukraine, including the currently low per capita consumption of meat, the replacement by consumers of other types of meat with poultry and the undersupply and resulting higher prices for other types of meat in Ukraine, will also help stabilise and improve prices for chicken products in the future, notwithstanding increasing production and supply. See “Industry Overview—Overview of the Ukrainian Markets for Meat Products—Poultry Consumption in Ukraine”.

Fluctuations in Market Price for Chicken Products

The price of chicken meat in Ukraine tends to correlate with U.S. dollar-denominated world prices as, according to the GfK Report, imported frozen chicken products accounted for approximately 18% of all chicken meat sold in Ukraine in 2009. Global chicken meat prices decreased in U.S. dollar terms during 2009, as a result of the economic downturn, but chicken meat prices in Ukraine benefited from a small increase in hryvnia terms due to strong demand. Furthermore, average sales prices for chicken meat in Russia and Europe are much higher than in Ukraine, which presents a potential export opportunity for growth and which MHP management expects to support increasing prices for chicken meat in Ukraine. See “Industry Overview—Overview of the Ukrainian Markets for Meat Products”. As a result, increasing world prices tend to support MHP’s profits due to MHP’s ability to increase prices for its products in line with world prices, whilst, at the same time maintaining a lower cost base as compared to world producers generally, because of its vertical integration. Chicken meat prices in Ukraine are also affected by the factors discussed above in “—Fluctuations in Demand for Chicken Products”, including seasonality, demand, and supply and prices of other meats.

Under Ukrainian legislation, local state authorities may regulate prices of certain food products, including chicken meat, pork and beef. In particular, the local state authorities may from time to time oblige producers of certain food products, including chicken meat and beef, to obtain approval from the local officers of the State Prices Inspection before increasing the wholesale prices of such products by more than 1% in any given month. Furthermore, the Cabinet of Ministers of Ukraine introduced a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and limits the profit margin charged on such products. Management believes that the approach MHP uses for determining the wholesale prices for MHP’s products is in line with the formula established by the above procedure.

The average sales price (excluding VAT) for MHP’s chicken products (on an adjusted weight basis) was UAH 8.37 (U.S.\$1.70) per kilogram, UAH 12.03 (U.S.\$2.30) per kilogram and UAH 12.79 (U.S.\$1.64) per kilogram in 2007, 2008 and 2009, respectively. Detailed information on average selling prices and volumes is presented below in the discussion of revenues from poultry for 2009 compared with 2008, and 2008 compared with 2007.

For information regarding market prices during the first quarter of 2010, see “—Recent Trends and Developments” below.

Fluctuations in Grain Prices

Grain prices represent a significant portion of the cost to produce poultry and other types of meat, and fluctuations in grain prices have a significant effect on meat producers. Since the conversion rate of feed consumed to produce the live weight of beef and pork is higher than that for the poultry, the cost of beef and pork is more susceptible to increases in grain prices.

MHP uses feed grains, such as corn and sunflower seeds, in its chicken production. In 2009, MHP produced internally 100% and approximately 15%, by volume, of its requirements for corn and sunflower seeds, respectively, and sourced the remainder from Ukrainian suppliers at prices which generally followed the trends of world commodities markets. In 2009, the costs of corn, sunflower seeds and other grains for fodder production represented a significant part of MHP’s total costs relating to its production of chicken meat. As sunflower oil is a by-product of manufacturing sunflower cake, proceeds from sales of sunflower oil are netted off the cost of producing sunflower cake so that it is sold with zero margin, higher prices for sunflower oil lead to lower costs of sunflower cake used in fodder production.

In addition to the purchases of grain made by MHP’s poultry and related operations segment, MHP’s grain growing segment sells a significant amount of grain to third parties at prices based upon world grain

prices. Revenue from grain sales, both internal and to third parties, was UAH 358.9 million (U.S.\$67.4 million) in 2008 and UAH 653.7 million (U.S.\$83.4 million) in 2009.

When grain and sunflower prices are low, MHP benefits from lower raw material costs and the margin in the poultry and related operations segment improves. Conversely, when grain and sunflower prices are high, MHP benefits from third party sales of grain which improve the margin on third party sales in the grain growing segment and provide foreign currency cash flows from grain export. Given MHP's competitive position in the poultry market in Ukraine and its ability to pass on price increases to its customers, MHP believes, on balance, that it generally benefits from increases in grain prices due to its expanding grain production business.

The following table sets forth the average market prices in UAH received by MHP for the grains it produced, both for its internal consumption and sales to third parties, for the periods presented. See "Industry Overview" for grain prices in USD for the period under review.

	1 August to 30 November (harvesting period)		
	2007	2008	2009
	(UAH per tonne) ⁽¹⁾		
Types Internally Consumed			
Corn	909	437	917
Sunflower	2,202	1,149	1,833
Types Sold to Third Parties:			
Wheat	879	796	916
Barley	990	756	810
Rapeseed	1,737	2,375	2,971

Source: APK inform

Note:

(1) Excluding VAT.

Prices for corn were significantly reduced in the fourth quarter of 2008, which benefited MHP's poultry and related operations segment; whereas the higher prices in 2009 benefited MHP's grain growing segment. A decrease in sunflower seed prices in the fourth quarter of 2008 contributed to cost reductions in the poultry and related operations segment.

State Support for Agricultural Production in Ukraine

In view of the importance of the agricultural sector to the national economy as well as the need to improve living conditions in rural areas, support of the agricultural sector is a major priority for the Ukrainian government. During the periods under review, state support to the agricultural sector was provided in various forms, including special tax regimes, tax privileges, direct subsidies and compensations. Grants and other privileges to the agricultural sector are established by the Parliament of Ukraine, the Agrarian Ministry, the Ministry of Finance, the State Committee of the Water Industry, customs authorities and local state district administrations, as well as other government departments and agencies.

In 2007, 2008 and 2009, MHP benefited from various forms of state support, which resulted in significant tax savings for MHP as well as substantial direct government grants and financial subsidies. MHP has organised its corporate structure to increase its eligibility for state subsidies and to maximise the effect of state support on MHP's financial results. The principal tax benefits and state support programmes from which MHP has benefited are summarised below.

Tax Benefits

Most of MHP's subsidiaries are exempt from Ukrainian corporate income tax (except the Advance CIT and withholding tax) and pay FAT in accordance with the Law on Fixed Agricultural Tax. FAT is paid in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT is calculated as a percentage of the deemed value (determined as of 1 July 1995) of all land plots used for agricultural production that are leased or owned by a taxpayer, at the rate of 0.15%. In 2009, the amount of FAT paid by MHP was UAH 1.1 million (U.S.\$0.1 million), which represented approximately 0.1% of its net profit in both hryvnia and U.S. dollar terms. If MHP were not eligible for the FAT regime, it would be taxed on its corporate profits at a rate of 25%. FAT expenses are recorded under selling, general and administrative expenses and

were not material in any of the periods under review. Pursuant to amendments to the relevant legislation in 2008, the FAT regime was extended for an unlimited period of time.

Government Grants

In 2007, 2008 and 2009, MHP recognised UAH 284.3 million (U.S.\$56.3 million), UAH 571.3 million (U.S.\$107.7 million) and UAH 531.8 million (U.S.\$67.8 million), respectively, in government grants income. During the period of review, in general terms, government grants increased in line with increased production, save that in 2009 no direct grants were received for the processing of live animals, although such reduction was largely offset by the increase in VAT refunds due to increased production. In hryvnia terms, government grants recognised as income, including VAT refunds, as a percentage of operating profit before impairment were 46%, 43% and 31% in 2007, 2008 and 2009, respectively (in U.S. dollar terms, 46%, 42% and 31%, respectively). The grants received in the periods under review were of the following principal types:

	Year ended 31 December					
	2007		2008		2009	
	(UAH'000) (unaudited)	(U.S.\$'000)	(UAH'000) (unaudited)	(U.S.\$'000)	(UAH'000) (unaudited)	(U.S.\$'000)
VAT refunds	107,893	21,365	319,382	59,338	514,367	65,606
Processing of live animals	149,689	29,641	240,652	46,146	6,094	780
Fruits and vine cultivation	12,206	2,417	2,455	468	9,114	1,145
Breeding	6,050	1,198	1,454	293	90	12
Other government grants	8,423	1,668	7,406	1,418	2,099	269
Total	284,261	56,289	571,349	107,663	531,764	67,812
<i>% of operating profit before impairment</i>	<u>46.0%</u>	<u>46.0%</u>	<u>42.9%</u>	<u>42.2%</u>	<u>31.1%</u>	<u>30.9%</u>

- *Government VAT refunds for the agricultural industry.* According to the new provisions of Ukrainian VAT law, Ukrainian agricultural producers in Ukraine, including MHP, are permitted to retain the difference between the VAT that they charge on their agricultural products (currently at a rate of 20%) and the VAT that they pay on items purchased for their operations. The amount of subsidy received as a result of the application of this special VAT regime may be used for agricultural purposes as well as for any other business purposes. This VAT benefit was received by MHP in 2009 and continues to be available to MHP. Prior to the effectiveness of these extended VAT provisions on 1 January 2009, MHP also received appropriate VAT benefits in 2007 and 2008. However, it was permitted to retain the amount of such benefit only to support production of its own products. Currently, the VAT exemption is in force for an indefinite period.

Although not specific to the agricultural industry, MHP also benefits from VAT refunds because export sales are generally taxed at the rate of 0%, MHP's input VAT accumulated on purchases related to such export sales is subject to reimbursement by the government. This refunded VAT is not included in government grants.

- *Government grants related to processing of live animals.* During the years ended 31 December 2007, 2008 and 2009, the Budget Laws established subsidies for companies engaged in the processing of live animals (poultry, cows and pigs). This subsidy was provided to MHP's chicken farms in the form of a payment for each animal slaughtered at the farms and fluctuated from UAH 0.5 to UAH 1.0 per animal during 2007 and 2008. This type of subsidy was also available to MHP's beef and pork processing facilities. The regulations required to provide similar grants were not issued in 2009 and are not expected to be issued in respect of 2010. Although direct government grants for the processing of live animals, which amounted to UAH 240.7 million (U.S.\$46.1 million) in 2008, were discontinued in 2009 (except for UAH 6.1 million (U.S.\$0.8 million) received by MHP in relation to beef and pork processing), the negative impact on MHP's operating profits were largely offset in 2009 by the increases in VAT refunds, which generally increased in line with production and sales.
- *Government grants on fruits and vine cultivation.* In accordance with the Law "On State Budget of Ukraine" two companies of the Group were entitled to receive grants for the years ended 31 December 2009, 2008 and 2007 for the creation and cultivation of orchards, vines and berry-fields.

- *Government grants related to breeding programmes.* This subsidy is provided to MHP's breeding farms in the form of compensation of expenses incurred in connection with MHP's chicken and beef breeding. The subsidy is capped at a certain maximum amount per egg or head of cattle.
- *Compensation for finance costs under loans from Ukrainian banks.* Some of MHP's Ukrainian subsidiaries receive partial compensation for interest expenses under loans received from Ukrainian commercial banks. The amount of government grants received as compensation for finance costs decreased to UAH 7.0 million (U.S.\$0.9 million) in 2009 compared to UAH 13.7 million (U.S.\$2.4 million) in 2008 and UAH 10.8 million (U.S.\$2.1 million) in 2007. Compensation for finance costs is accounted for as a deduction from finance costs, and not under government grants income in the Audited Consolidated Financial Statements.

According to MHP's estimates based on data from the OECD and the United Nations Food and Agricultural Organisation, direct government support to the agricultural industry in Ukraine is currently lower as a percentage of total agricultural turnover than in the United States or the EU. In 2007, the last year for which such statistics are available, support for the agricultural sector in Ukraine represented 8% of aggregate agricultural turnover, as compared to 20% in the United States and 34% in the EU. In Russia, direct government support to the agricultural industry represented 6% of aggregate agricultural turnover during 2007. Nevertheless, the risk remains that some or all of the state support mechanisms discussed above will be limited in the future as is demonstrated by the discontinuation of direct grants for the processing of live animals in 2009 and, MHP believes, going forward. The terms and amounts of government subsidies available in 2010 will not be known until the Verkhovna Rada of Ukraine adopts the state budget, which is expected at the end of April 2010.

Acquisitions and Disposals

In July 2008, MHP acquired from a third party an 80% interest in Ukrainian Bacon, a meat processing company, for only nominal consideration other than the assumption of debt. The Group's effective ownership interest in Ukrainian Bacon upon the acquisition and as at 31 December 2008 was 79.9%. The acquisition of Ukrainian Bacon is described in Note 2 to the Audited Consolidated Financial Statements. Prior to and in connection with the acquisition, MHP provided short-term interest-free loans to Ukrainian Bacon for working capital purposes in the aggregate amount of U.S.\$17.4 million and provided extended payment terms on ordinary trade transactions between Ukrainian Bacon and the MHP group in the amount of U.S.\$2.2 million as at the date of acquisition.

The increase in MHP's sausage and cooked meat production capacities by 231% from approximately 7,500 tonnes in 2007 to approximately 24,800 tonnes in 2009 is mostly attributable to Ukrainian Bacon, the facilities of which are capable of producing approximately 50 tonnes a day. Ukrainian Bacon operations have been included in the consolidated statement of comprehensive income beginning in July 2008 and in 2009, when it was consolidated for the whole year, it contributed UAH 165.5 million (U.S.\$21.2 million) to MHP's revenue. See Note 2 to the Audited Consolidated Financial Statements.

In April 2007, MHP sold its ZZG subsidiary, a mink farm, for a cash consideration of U.S.\$4.8 million. ZZG made no significant contribution to either the Group's revenue or profit or loss.

In December 2008, in line with its stated strategy of focusing on processed meat and chicken production and strengthening its vertical integration, MHP sold its stake in Kyivska for U.S.\$1.0 million (See Note 2 to the Audited Consolidated Financial Statements), as further development of this facility would have required significant investment. Kyivska's principal activity (the cultivation of potatoes) was non-core and returned a loss of U.S.\$3.5 million and U.S.\$3.5 million in 2007 and 2008 respectively. The loss on the disposal of Kyivska's operations was U.S.\$6.2 million.

Recent Trends and Developments

In the first quarter of 2010, MHP's production volumes following the start of production at the second phase of the Myronivka chicken farm were approximately 50% higher than in the three months ended 31 March 2009 due to such capacity being fully operational, and as consumer demand remains high the Group continues to sell close to 100% of the chicken meat it produces. MHP is finalising construction of additional chicken barns at the Starynska breeding farm to further benefit from its vertical integration.

On an average adjusted weight basis, the price for chicken meat for the three months ended 31 March 2010 remained broadly the same as in the three months ended 31 March 2009 and in the three months ended 31 December 2009. The market price for chicken meat has remained stable notwithstanding the

higher production costs faced by most poultry producers competing with MHP, particularly due to the high price of corn, which presently prevails, as compared to the three months ended 31 March 2009. Management believes present indications are that prices for chicken meat are trending upwards.

MHP's production costs for the three months ended 31 March 2010 increased as compared with the three months ended 31 March 2009. This increase was mainly attributable to an increase in corn prices to UAH 917 per tonne in the fourth quarter of 2009 compared to UAH 437 per tonne in the fourth quarter of 2008. These prices were used in the calculation of the fair value of corn for accounting purposes and formed the basis of the carrying value of such corn which remained in inventory as of 31 December 2009 and 2008. As a result, fodder related production costs were based on such carrying values when inventory was used in fodder production in the first quarter of 2010 resulting in significantly higher costs in the first quarter of 2010 compared to the first quarter of 2009. This increase in production costs resulted in a decrease in the adjusted EBITDA margin for MHP's poultry and related operations segment as compared to 2009.

Winter sown crops are progressing well and the 2010 spring sowing campaign is underway with all the required seeds and fertilizers already purchased. The current higher grain prices should benefit MHP's grain growing segment if they remain at such levels when forward sales are negotiated and/or actual sales to third parties are made.

MHP has increased production and sales of processed meat products and convenience food during the three months ended 31 March 2010. Given that most of Ukrainian Bacon's products are sold to the mass market, in which consumer demand continues to grow, MHP continues to increase the quantity of sausages and cooked meat it produces.

Consistent with its land bank expansion strategy, in April 2010, MHP acquired two companies for approximately U.S.\$2 million, with rights over approximately 4,500 hectares in the Cherkasy region.

In the three months ended 31 March 2010, the hryvnia/U.S. dollar exchange rate has remained stable and consistent with the exchange rate prevailing at 31 December 2009 and the euro has slightly weakened against the hryvnia. See “—Functional and presentation currency” and “Exchange Rate Information” above.

Results of Operations

The following tables summarise MHP's results of operations for the years ended 31 December 2007, 2008 and 2009 in hryvnia and U.S. dollars respectively.

	Year ended 31 December					
	2007		2008		2009	
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue
Continuing Operations						
Revenue	2,395,909	100.0%	4,189,205	100.0%	5,552,237	100.0%
Net change in fair value of biological assets and agricultural produce	71,919	3.0%	44,013	1.1%	273,025	4.9%
Cost of sales	(1,843,341)	(76.9)%	(2,994,949)	(71.5)%	(3,901,778)	(70.3)%
Gross profit	624,487	26.1%	1,238,269	29.6%	1,923,484	34.6%
Selling, general and administrative expenses	(260,573)	(10.9)%	(424,264)	(10.1)%	(632,398)	(11.4)%
Government grants recognised as income . .	284,261	11.9%	571,349	13.6%	531,764	9.6%
Other operating expenses	(36,737)	(1.5)%	(56,215)	(1.3)%	(118,720)	(2.1)%
Other operating income	6,589	0.3%	3,191	0.1%	4,569	0.1%
Operating profit before loss on impairment of property, plant and equipment	618,027	25.8%	1,332,330	31.8%	1,708,699	30.8%
Loss on impairment of property, plant and equipment	(51,704)	(2.2)%	(90,604)	(2.2)%	(10,422)	(0.2)%
Operating profit	566,323	23.6%	1,241,726	29.6%	1,698,277	30.6%
Finance costs, net	(249,885)	(10.4)%	(270,089)	(6.4)%	(396,576)	(7.1)%
Finance income	—	—	36,193	0.9%	29,602	0.5%
Foreign exchange losses, net	(65,950)	(2.8)%	(1,176,614)	(28.1)%	(184,048)	(3.3)%
Other expenses	(3,707)	(0.2)%	(3,705)	(0.1)%	(5,390)	(0.1)%
Gain realised from acquisitions and changes in minority interest in subsidiaries, net . .	6,487	0.3%	21,709	0.5%	41,684	0.7%
Other income	3,379	0.1%	6,524	0.2%	11,014	0.2%
Other expenses, net	(309,676)	(12.9)%	(1,385,982)	(33.1)%	(503,714)	(9.1)%
Profit/(loss) before tax	256,647	10.7%	(144,256)	(3.4)%	1,194,563	21.5%
Income tax expense/(benefit)	(2,161)	(0.1)%	(6,739)	(0.2)%	50,558	0.9%
Profit/(loss) for the year from continuing operations	254,486	10.6%	(150,995)	(3.6)%	1,245,121	22.4%
Discontinued Operations						
Loss for the year from discontinued operations, net of income tax	(18,182)	(0.8)%	(69,926)	(1.7)%	—	—
Profit/(loss) for the year	236,304	9.9%	(220,921)	(5.3)%	1,245,121	22.4%
Attributable to:						
Equity holders of the parent	206,393	8.6%	(240,285)	(5.7)%	1,155,993	20.8%
Minority interest	29,911	1.2%	19,364	0.5%	89,128	1.6%

	Year ended 31 December					
	2007		2008		2009	
	Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue
Continuing Operations						
Revenue	474,437	100.0%	802,910	100.0%	711,004	100.0%
Net change in fair value of biological assets and agricultural produce	14,241	3.0%	6,327	0.8%	35,236	5.0%
Cost of sales	(365,018)	(76.9)%	(571,710)	(71.2)%	(499,163)	(70.2)%
Gross profit	123,660	26.1%	237,527	29.6%	247,077	34.8%
Selling, general and administrative expenses . . .	(51,599)	(10.9)%	(80,495)	(10.0)%	(80,972)	(11.4)%
Government grants recognised as income	56,289	11.9%	107,663	13.4%	67,812	9.5%
Other operating expenses	(7,275)	(1.5)%	(10,022)	(1.2)%	(15,209)	(2.1)%
Other operating income	1,306	0.3%	600	0.1%	576	0.1%
Operating profit before loss on impairment of property, plant and equipment	122,381	25.8%	255,273	31.8%	219,284	30.8%
Loss on impairment of property, plant and equipment	(10,238)	(2.2)%	(11,767)	(1.5)%	(1,304)	(0.2)%
Operating profit	112,143	23.6%	243,506	30.3%	217,980	30.7%
Finance costs, net	(49,482)	(10.4)%	(51,663)	(6.4)%	(50,817)	(7.1)%
Finance income	—	0.0%	6,695	0.8%	3,823	0.5%
Foreign exchange losses, net	(13,059)	(2.8)%	(187,127)	(23.3)%	(23,580)	(3.3)%
Other expenses	(734)	(0.2)%	(784)	(0.1)%	(712)	(0.1)%
Gain realised from acquisitions and changes in minority interest in subsidiaries, net	1,285	0.3%	4,482	0.6%	5,413	0.8%
Other income	669	0.1%	1,085	0.1%	1,408	0.2%
Other expenses, net	(61,321)	(12.9)%	(227,312)	(28.3)%	(64,465)	(9.1)%
Profit/(loss) before tax	50,822	10.7%	16,194	2.0%	153,515	21.6%
Income tax expense/(benefit)	(428)	(0.1)%	(1,279)	(0.2)%	6,488	0.9%
Profit/(loss) for the year from continuing operations	50,394	10.6%	14,915	1.9%	160,003	22.5%
Discontinued Operations						
Loss for the year from discontinued operations, net of income tax	(3,601)	(0.8)%	(9,722)	(1.2)%	—	—
Profit for the year	46,793	9.9%	5,193	0.6%	160,003	22.5%
Attributable to:						
Equity holders of the parent	40,870	8.6%	1,518	0.2%	148,564	20.9%
Minority interest	5,923	1.2%	3,675	0.5%	11,439	1.6%

The Year Ended 31 December 2009 Compared to the Year Ended 31 December 2008

During the year ended 31 December 2009, MHP's key financial indicators generally increased year-on-year compared to the year ended 31 December 2008, in hryvnia terms. The deterioration of certain financial indicators in U.S. dollar terms was due to the hryvnia's 48% depreciation against the U.S. dollar based on the average exchange rate during 2009 (in 2008 the average exchange rate was UAH 5.27 to one U.S. dollar, and in 2009 the average exchange rate was UAH 7.79 to one U.S. dollar). As a result, profit and loss indicators for 2008 and 2009 in U.S. dollars were calculated at significantly different exchange rates.

Revenue

MHP's total revenue increased by 33% in hryvnia terms to UAH 5,552.2 million (U.S.\$711.0 million) in 2009 from UAH 4,189.2 million (U.S.\$802.9 million) in 2008. The 11% decrease in U.S. dollar terms resulted from the hryvnia's depreciation against the U.S. dollar in 2008. External sales of the poultry and related operations segment accounted for UAH 4,505.2 million (U.S.\$577.1 million), or approximately 81% of MHP's total revenues in both hryvnia and U.S. dollar terms in 2009. External sales of the grain growing segment accounted for UAH 360.3 million (U.S.\$45.8 million), or approximately 6% in hryvnia terms (6% in U.S. dollar terms) of MHP's total revenues in 2009. External sales of the other agricultural operations segment accounted for UAH 686.7 million (U.S.\$88.1 million), or approximately 12% both in hryvnia and U.S. dollar terms of MHP's total revenues in 2009.

The following table presents MHP's revenues by type for 2008 and 2009. Segregated numbers are presented after intersegment eliminations.

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾		Amount (U.S.\$'000)	Percentage of total revenue ⁽¹⁾	Amount (U.S.\$'000)	Percentage of total revenue ⁽¹⁾	
Poultry and related operations segment:										
Revenue from sales of chicken meat	2,606,843	62.2%	3,461,607	62.3%	32.8%	501,013	62.4%	443,654	62.4%	(11.4)%
Revenue from sunflower oil sales	578,950	13.8%	792,856	14.3%	36.9%	109,974	13.7%	101,274	14.2%	(7.9)%
Revenue from other poultry related sales	257,281	6.2%	250,770	4.5%	(2.5)%	49,044	6.1%	32,215	4.5%	(34.3)%
Sales to external customers . .	3,443,074	82.2%	4,505,233	81.1%	30.8%	660,031	82.2%	577,143	81.2%	(12.6)%
Grain growing segment:										
Revenue from sales of feed grains to external customers	255,176	6.1%	360,273	6.5%	41.2%	49,777	6.2%	45,752	6.4%	(8.1)%
Other agricultural operations segment:										
Revenue from sales of other meat	348,278	8.3%	468,379	8.4%	34.5%	66,122	8.2%	60,116	8.5%	(9.1)%
Other agricultural sales	142,677	3.4%	218,352	3.9%	53.0%	26,980	3.4%	27,993	3.9%	3.8%
Sales to external customers . .	490,955	11.7%	686,731	12.4%	39.9%	93,102	11.6%	88,109	12.4%	(5.4)%
Total revenues from continuing operations⁽¹⁾ . .	4,189,205	100.0%	5,552,237	100.0%	32.5%	802,910	100.0%	711,004	100.0%	(11.4)%

Note:

(1) Excluding intersegment sales.

Poultry and Related Operations Segment

MHP's revenues from sales of chicken meat to external customers increased by 33% in hryvnia terms from UAH 2,606.8 million (U.S.\$501.0 million) in 2008 to UAH 3,461.6 million (U.S.\$443.7 million) in 2009 mainly due to the increased volumes of chicken products sold. The decrease in revenue from such sales in U.S. dollar terms was solely attributable to the hryvnia's depreciation against the U.S. dollar.

In line with MHP's plans, phase two of the Myronivka chicken farm, its new production facility, commenced production in June 2009 and reached full capacity during the third quarter of 2009. The combined annual production capacity of phases one and two of the Myronivka chicken farm is approximately 200,000 tonnes, making it one of the largest poultry facilities in Europe. The production volume of the Myronivka chicken farm during 2009 represented approximately 49.5% of MHP's aggregate production volume and Management expects it to represent approximately 55% of MHP's aggregate production volume in 2010 after the facility has been in operation for a full year at full capacity. Production by MHP's other plants remained relatively stable during 2009 and consistent with historical volumes.

Revenues from sales of sunflower oil to external customers were UAH 792.9 million (U.S.\$101.3 million) in 2009, as compared to UAH 579.0 million (U.S.\$110.0 million) in 2008, representing 14% of MHP's total revenues in both hryvnia and U.S. dollar terms in each of 2008 and 2009. Revenues in U.S. dollars from sales of sunflower oil decreased between 2008 and 2009 mostly due to decrease in prices for sunflower oil in U.S. dollars. Revenues in hryvnia terms from sales of sunflower oil increased by 37% mainly as a result of an increase in sunflower oil sales primarily due to higher levels of fodder production to meet the needs of increased poultry production. MHP's new sunflower crushing plant commenced production in September 2009 and allowed MHP to increase its sunflower oil production volumes by 50% in 2009 as compared to 2008. Sunflower seed crushing capacities increased from 389,000 tonnes in 2008 to 550,000 tonnes in 2009 due to the commencement of production at the new crushing facility at the Katerynopilsky Elevator facility. Almost 100% of the sunflower oil produced is exported. The increase in the revenue from sales of sunflower oil as a result of the increase in volumes more than offset the fact that prices for sunflower oil fell by approximately 9% (in UAH) in 2009, as compared to 2008. Prices in U.S. dollar terms fell by approximately 40% in 2009, as compared to 2008.

Revenues from other poultry-related sales to external customers were largely flat at UAH 250.8 million (U.S.\$32.2 million), or 5% of total revenues in both hryvnia and U.S. dollar terms in 2009, as compared to UAH 257.3 million (U.S.\$49.0 million), or 6% of total revenues in both hryvnia and U.S. dollar terms in 2008. The decrease in U.S. dollar terms of 34% was due to the depreciation of the hryvnia.

As a result of the factors described above, the poultry and related operations segment's revenue from sales to external customers increased by 31% in hryvnia terms from UAH 3,443.1 million (U.S.\$660.0 million) in 2008 to UAH 4,505.2 million (U.S.\$577.1 million) in 2009.

Grain Growing Operations

MHP's revenue from sales of grains to third parties was UAH 360.3 million (U.S.\$45.8 million) in 2009, as compared to UAH 255.2 million (U.S.\$49.8 million) in 2008 and included sales of wheat, barley and rapeseed and soybeans. This 41% increase in hryvnia terms was attributable to an increase in prices in 2009 compared to relatively low prices in 2008 and higher volume and yields. The decrease in U.S. dollar terms was due to the depreciation of the hryvnia. In addition, MHP commenced export sales of grain in 2009, and revenue from such export sales amounted to U.S.\$30.1 million in 2009. There were no export sales in 2008.

The table below represents grain sales in 2009 as compared to 2008:

	Year ended 31 December								
	2008	2009	Change in UAH	2008	2009	Change in U.S.\$	2008	2009	Change in volumes
	(UAH'000) (unaudited)			(U.S.\$'000)			(Tonnes in '000)		
Third party sales	255,176	360,273	41.2%	49,777	45,752	(8.1)%	204	309	51.5%
Internal sales	103,735	293,472	182.9%	17,653	37,673	113.4%	167	387	131.7%
Total sales	<u>358,911</u>	<u>653,745</u>	<u>82.1%</u>	<u>67,430</u>	<u>83,425</u>	<u>23.7%</u>	<u>370</u>	<u>696</u>	<u>88.1%</u>

Insignificant sales of corn to third parties were generally made only for the purpose of minimising delivery costs.

In 2009, MHP had approximately 180,000 hectares of land for its operations, of which approximately 150,000 hectares were used for grain production in its grain growing segment, broadly the same amount as in 2008. MHP's yields across all cultivated crops were significantly higher than Ukraine's average in 2009 as presented in the table below:

	MHP average yield			Ukraine average yield		MHP vs. Ukraine average	
	2008	2009	Change	2008	2009	2008	2009
	(Tonnes per hectare)			(Tonnes per hectare)			
Total production:							
Corn	7.0	9.0	28.6%	4.7	5.0	48.9%	80.0%
Sunflower	2.8	3.3	17.9%	1.5	1.5	86.7%	120.0%
Wheat	6.3	5.8	(7.9)%	3.7	3.1	70.3%	87.1%
Rapeseed	3.5	2.7	(22.9)%	2.1	1.9	66.7%	42.1%

Source: management information, SCSU

Other Agricultural Operations

MHP's revenues from sales to external customers in the other agricultural operations segment increased by 40% in hryvnia terms and reached UAH 686.7 million (U.S.\$88.1 million) in 2009 compared to UAH 491.0 million (U.S.\$93.1 million) in 2008. The decrease in revenues from other agricultural operations of 5% in U.S. dollar terms was attributable to the hryvnia's sharp depreciation against the U.S. dollar in late 2008.

MHP's revenues from sales of processed and other meat to external customers were 34% higher in hryvnia terms (9% lower in U.S. dollar terms) at UAH 468.4 million (U.S.\$60.1 million) in 2009 as compared to UAH 348.3 million (U.S.\$66.1 million) in 2008 due to an increase in sausage and cooked meat volume of 54% from 16,000 tonnes in 2008 to 24,600 tonnes in 2009. This substantial volume growth was due primarily to the acquisition of Ukrainian Bacon in July 2008, producing 50 tonnes a day or 30% of the increase in volume and 26% of the increase in revenue. The remainder of the increase in volume was due to increased production at the Druzhba facility. The segment's 9% decrease in revenue in U.S. dollar terms resulted from the hryvnia's depreciation against the U.S. dollar in late 2008.

MHP's average sausage and cooked meat prices during 2009 decreased by 5% to UAH 17.33 per kilogram excluding VAT, compared to average prices of UAH 18.23 per kilogram excluding VAT in 2008 mainly due to changing demand as a result of the economic downturn in Ukraine. The decrease in average

prices was due primarily to “Ukrainian Bacon” producing sausage and cooked meat products aimed at the mass market and MHP shifting its product mix towards lower priced products in accordance with consumer demand given the downturn in the Ukrainian economy. The decrease was even more pronounced in U.S. dollar terms.

MHP’s revenues in hryvnia from sales to external customers in the other agricultural operations segment were 53% higher at UAH 218.4 million (U.S.\$28.0 million) in 2009 as compared UAH 142.7 million (U.S.\$27.0 million) in 2008 and included sales of fruit and milk, goose meat, foie gras, beef and other agricultural products. The increase in revenues was primarily due to an increase in volumes of the various products within this segment with prices remaining largely stable.

Net Change in Fair Value of Biological Assets and Agricultural Produce

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each balance sheet date as a fair value adjustment. The change in this adjustment from one period to another is recognised in net change in fair value of biological assets and agricultural produce in the profit or loss. The net change in fair value of biological assets and agricultural produce was UAH 273.0 million (U.S.\$35.2 million) in 2009 as compared to UAH 44.0 million (U.S.\$6.3 million) in 2008.

In 2009 the gain related to poultry and related operations was UAH 130.1 million (U.S.\$17.7 million), primarily driven by an increase in volumes of poultry due to the completion of phase two of the Myronivka chicken complex in June 2009 at relatively stable prices and a stable adjusted EBITDA margin, whilst the gain of UAH 99.8 million (U.S.\$17.9 million) in 2008 was primarily driven by prices and margin was mostly attributable to the 44% increase in hryvnia terms in the average sale price for chicken meat and the corresponding increase in segment adjusted EBITDA margins to 43.9% in 2008.

In 2009 the gain related to grain growing segment of UAH 136.8 million (U.S.\$17.9 million) was recognised in line with increased average market prices for grains, mostly due to the recovery of grain prices, particularly corn, in 2009 after a drop in late 2008 (see “—Fluctuations in grain prices” below), whilst the negative change of UAH 47.4 million (U.S.\$10.4 million) in 2008 resulted from record low prices and relatively high costs of grain harvested in 2008.

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations . . .	99,811	2.4%	130,156	2.3%	30.4%	17,854	2.2%	16,670	2.3%	(6.6%)
Grain growing operations	(47,440)	(1.1%)	136,809	2.5%	n/a	(10,390)	(1.3%)	17,862	2.5%	n/a
Other agricultural operations . . .	(8,358)	(0.2%)	6,060	0.1%	n/a	(1,137)	(0.1%)	704	0.1%	n/a
Total	44,013	1.1%	273,025	4.9%	520.3%	6,327	0.8%	35,236	4.9%	456.9%

Cost of Sales

MHP’s cost of sales increased by 30% in hryvnia terms to UAH 3,901.8 million (U.S.\$499.2 million) in 2009 from UAH 2,995.0 million (U.S.\$571.7 million) in 2008 mainly due to a significant increase in production volume. This increase corresponded to a 13% decrease in U.S. dollar terms due to the devaluation of the hryvnia. Overall, cost of sales as a percentage of total revenue in hryvnia fell from 71.5%

in 2008 to 70.3% in 2009 as a result of increased vertical integration and efficiency. The table below sets forth MHP's cost of sales by segment in 2008 and 2009:

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		Amount	Percentage of total revenue	Amount	Percentage of total revenue	
	(UAH'000) (unaudited)		(UAH'000) (unaudited)		(U.S.\$'000)		(U.S.\$'000)			
Cost of sales related to poultry and related operations	2,300,108	54.9%	2,932,574	52.8%	27.5%	442,236	55.1%	375,100	52.8%	(15.2)%
Cost of sales related to grain growing operations	209,431	5.0%	303,234	5.5%	44.8%	37,892	4.7%	38,710	5.4%	2.2%
Cost of sales related to other agricultural operations	485,410	11.6%	665,970	12.0%	37.2%	91,492	11.4%	85,353	12.0%	(6.7)%
Total cost of sales from continuing operations	2,994,949	71.5%	3,901,778	70.3%	30.3%	571,710	71.2%	499,163	70.2%	(12.7)%

The following table provides additional information relating to the MHP's cost of sales for the periods shown.

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		Amount	Percentage of total revenue	Amount	Percentage of total revenue	
	(UAH'000) (unaudited)		(UAH'000) (unaudited)		(U.S.\$'000)		(U.S.\$'000)			
Raw materials and other inventory used	2,029,432	48.4%	2,642,917	47.6%	30.2%	390,421	48.6%	338,114	47.6%	(13.4)%
Payroll and related expenses ⁽¹⁾	461,219	11.0%	623,344	11.2%	35.2%	86,440	10.8%	79,746	11.2%	(7.7)%
Depreciation expenses ⁽²⁾	274,971	6.6%	339,860	6.1%	23.6%	51,541	6.4%	43,479	6.1%	(15.6)%
Other costs	229,327	5.5%	295,657	5.3%	28.9%	43,308	5.4%	37,824	5.3%	(12.7)%
Total cost of sales from continuing operations	2,994,949	71.5%	3,901,778	70.3%	30.3%	571,710	71.2%	499,163	70.2%	(12.7)%

Notes:

- (1) Relates only to personnel employed at MHP's production facilities.
- (2) Relates to depreciation of buildings, equipment and other property, plant and equipment at MHP's production facilities, as well as MHP's trucks used in the production process.

Raw materials and other inventory used increased by 30% in hryvnia terms to UAH 2,642.9 million (U.S.\$338.1 million) in 2009 from UAH 2,029.4 million (U.S.\$390.4 million) in 2008 mainly due to increased use of raw materials in MHP's chicken operations as a result of the increase in production volume following the completion of phase two of the Myronivka chicken farm. This increase corresponded to a 13% decrease in U.S. dollar terms due to the devaluation of the hryvnia. Raw materials costs as a percentage of both revenue and total costs of sales were relatively stable in 2008 and 2009.

MHP's payroll and related expenses increased by 35% in hryvnia terms to UAH 623.3 million (U.S.\$79.7 million) in 2009 from UAH 461.2 million (U.S.\$86.4 million) in 2008 mainly due to an increase in headcount as a result of increased production at the Myronivka chicken farm and increased performance bonuses. Payroll and related expenses in U.S. dollar terms decreased by 8% in 2009 compared to 2008 due to the devaluation of the hryvnia. These expenses constituted 16% in both hryvnia and U.S. dollar terms of MHP's total cost of sales in 2009 as compared to 15% in both hryvnia and U.S. dollar terms of MHP's total cost of sales in 2008.

Depreciation expenses increased by 24% in hryvnia terms to UAH 339.9 million (U.S.\$43.5 million) in 2009 from UAH 275.0 million (U.S.\$51.5 million) in 2008 due to additional capital expenditures made in 2009, mostly related to the completion of construction at the Myronivka chicken farm and, to support the increased production facilities at the Myronivka chicken farm, the new sunflower crushing facility and the expansion of the hatching facilities at the Starynska chicken farms. Depreciation expenses in U.S. dollar terms decreased by 16% in 2009 compared to 2008 due to the devaluation of the hryvnia.

Other costs increased by 29% in hryvnia terms to UAH 295.7 million (U.S.\$37.8 million) in 2009 from UAH 229.3 million (U.S.\$43.3 million) in 2008, which was in line with all other components of cost of sales and was driven by increased production. This increase corresponded to a 13% decrease in U.S. dollar terms due to the devaluation of the hryvnia. The major components of other costs were gas and electricity

to operate the production facilities. In addition to volume increases, MHP also experienced price increases.

Cost of Sales Related to Poultry and Related Operations

MHP's cost of sales for the poultry and related operations segment increased in hryvnia terms by 27% to UAH 2,932.6 million (U.S.\$375.1 million) in 2009 from UAH 2,300.1 million (U.S.\$442.2 million) in 2008. This increase was mainly attributable to the increase in sales volume of chicken meat by 27% and the sales volume of sunflower oil by 50%. Cost of sales for the poultry and related operations segment in U.S. dollar terms decreased by 15% in 2009 compared to 2008 due to the devaluation of the hryvnia.

Depreciation costs increased in hryvnia due to additional capital expenditures made in 2009 partially with respect to the Myronivka chicken farm and decreased in U.S. dollar due to the hryvnia's depreciation against the U.S. dollar in 2008 as discussed above.

In hryvnia terms, the segment's revenue increased by 31% in 2009, accompanied by a 27% increase in the cost of sales. In dollar terms, the segment's revenue decreased by 13% in 2009, and cost of sales decreased by 15% due to the hryvnia's depreciation against the U.S. dollar in the fourth quarter of 2008.

Cost of Sales Related to Grain Growing Operations

MHP's cost of sales for its grain growing operations increased in hryvnia terms by 45% to UAH 303.2 million (U.S.\$38.7 million) in 2009 from UAH 209.4 million (U.S.\$37.9 million) in 2008, which was in line with the 51.5% increase in volume of third party sales of grains and the cost attributable thereto. This increase corresponded to a 2% increase in U.S. dollar terms due to the devaluation of the hryvnia.

Cost of Sales Related to Other Agricultural Operations

MHP's cost of sales for its other agricultural operations increased in hryvnia terms by 37% to UAH 666.0 million (U.S.\$85.4 million) in 2009 from UAH 485.4 million (U.S.\$91.5 million) in 2008 which was in line with a 40% increase in revenues from other agricultural operations. Cost of sales for other agricultural operations in U.S. dollar terms decreased by 7% in 2009 compared to 2008 due to the hryvnia's devaluation against the U.S. dollar. The cost of raw materials and other inventory used consisted primarily of seeds, fertilisers, pesticides and veterinary medicines. In addition costs included payroll expenses; depreciation of agricultural machinery, equipment and buildings and fuel, electricity and natural gas used in the production process.

Gross Profit

MHP's gross profit increased by 55% in hryvnia and 4% in U.S. dollars in 2009 compared to 2008. The following table provides information relating to MHP's gross profit by segments results for the years ended 31 December 2008 and 2009:

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations:										
Gross profit net of change in fair value effect	1,142,966	27.3%	1,572,659	28.3%	37.6%	217,705	27.1%	202,043	28.4%	(7.2)%
Net change in fair value of biological assets and agricultural produce	99,811	2.4%	130,156	2.3%	30.4%	17,854	2.2%	16,670	2.3%	(6.6)%
Total	1,242,777	29.7%	1,702,815	30.6%	37.0%	235,559	29.3%	218,713	30.7%	(7.2)%
Grain growing operations:										
Gross profit net of change in fair value effect	45,745	1.1%	57,040	1.0%	24.7%	11,885	1.5%	7,041	1.0%	(40.8)%
Net change in fair value of biological assets and agricultural produce	(47,440)	(1.1)%	136,809	2.5%	n/a	(10,390)	(1.3)%	17,862	2.5%	n/a
Total	(1,695)	(0.0)%	193,849	3.5%	n/a	1,495	0.2%	24,903	3.5%	n/a
Other agricultural operations:										
Gross profit net of change in fair value effect	5,545	0.1%	20,760	0.4%	274.4%	1,610	0.2%	2,757	0.4%	71.2%
Net change in fair value of biological assets and agricultural produce	(8,358)	(0.2)%	6,060	0.1%	n/a	(1,137)	(0.1)%	704	0.1%	n/a
Total	(2,813)	(0.1)%	26,820	0.5%	n/a	473	0.1%	3,461	0.5%	631.7%
Total	1,238,269	29.6%	1,923,484	34.6%	55.3%	237,527	29.6%	247,077	34.7%	4.0%

Gross Profit Related to Poultry and Related Operations

Due to the completion of the Myronivka chicken complex and the corresponding increase in sales volume of chicken meat by 27% and the increase in sales price in hryvnia terms, gross profit from MHP's poultry and related operations increased in hryvnia terms by 37% to UAH 1,702.8 million (U.S.\$218.7 million) in 2009 from UAH 1,242.8 million (U.S.\$235.6 million) in 2008. Profit generated from the sale of 1 kilo of poultry meat grew by 8% mainly due to a 6% increase in the average selling price for chicken meat during 2009 compared to 2008 and to increased operational efficiencies. The decrease of the gross profit from MHP's poultry and related operations in U.S. dollar terms was due to the hryvnia's devaluation against the U.S. dollar.

Gross Profit Related to Grain Growing Operations

Gross profit from MHP's grain growing operations increased to UAH 193.8 million (U.S.\$24.9 million) in 2009 from a loss of UAH 1.7 million (a profit of U.S.\$1.5 million) in 2008, and it also increased as a percentage of the total gross profit. The increase resulted from an increase in volume and prices and was also partly attributable to the increase in corn yields by 29% to 9.0 tonnes per hectare in 2009, compared to 7.0 tonnes per hectare in 2008, an increase in the price of corn and the corresponding positive impact on the relationship between revenues and cost of sales. The period-to-period increase in the fair value of MHP's grain inventory due to higher prices in 2009 contributed to higher gross profit.

Gross Profit Related to Other Agricultural Operations

Gross profit from MHP's other agricultural operations increased to UAH 26.8 million (U.S.\$3.5 million) in 2009 as compared to a loss of UAH 2.8 million (a profit of U.S.\$0.5 million) in 2008. Such an increase was mainly attributable to an increase in sausage and cooked meat production volume due primarily to the acquisition of Ukrainian Bacon in July 2008.

Gross Profit Margin

Management believes that MHP generally has been able to achieve higher gross profit margins than its industry peers principally as a result of the high level of vertical integration in MHP's business and its efficient production methods.

MHP's gross profit margin increased to 35% in 2009 from 30% in 2008 both in hryvnia and U.S. dollar terms mainly due to an increase in gross profit margin in the grain growing segment to 30% in 2009 from negative gross profit margin of 0.5% in 2008 in hryvnia terms (increased to 30% from 2.2% in U.S. dollar terms). This was driven by higher grain prices in 2009 compared to the fourth quarter 2008 in hryvnia terms.

The gross profit margin of the poultry and related operations segment was relatively stable at 35.0% and 36.4% in 2008 and 2009, respectively, in hryvnia terms (34.6% and 36.5%, respectively in U.S. dollar terms). The other agricultural segment had a slight increase in gross profit margin to 3.8% in hryvnia terms in 2009 from negative gross profit margin of 0.6% in 2008 (in U.S. dollar terms increased to 3.9% from 0.5%, respectively), which was primarily attributable to the acquisition of Ukrainian Bacon and increased sales volumes of processed meat products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased in hryvnia terms by 49% to UAH 632.4 million (U.S.\$81.0 million) in 2009 from UAH 424.3 million (U.S.\$80.5 million) in 2008. As a percentage of total revenue, these expenses were stable at approximately 10% and 11% in hryvnia terms during 2008 and 2009, respectively. MHP's selling, general and administrative expenses during these years were as follows:

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Payroll and related expenses ⁽¹⁾	198,978	4.7%	234,715	4.2%	18.0%	37,820	4.7%	30,062	4.2%	(20.5)%
Services	58,993	1.4%	110,113	2.0%	86.7%	11,069	1.4%	13,992	2.0%	26.4%
Advertising expenses	45,232	1.1%	82,302	1.5%	82.0%	8,361	1.0%	10,562	1.5%	26.3%
Representative costs and business trips	43,426	1.0%	68,754	1.2%	58.3%	8,319	1.0%	8,807	1.2%	(5.9)%
Fuel and other materials used	42,277	1.0%	50,467	0.9%	19.4%	8,045	1.0%	6,454	0.9%	(19.8)%
Depreciation expense ⁽²⁾	26,204	0.6%	64,561	1.2%	146.4%	5,397	0.7%	8,198	1.2%	51.9%
Insurance expenses	3,093	0.1%	9,810	0.2%	217.2%	580	0.1%	1,349	0.2%	132.6%
Bank services and conversion fees	2,469	0.1%	3,648	0.1%	47.8%	477	0.1%	476	0.1%	(0.2)%
Other	3,592	0.1%	8,028	0.1%	123.5%	427	0.1%	1,072	0.2%	151.1%
Total	424,264	10.1%	632,398	11.4%	49.1%	80,495	10.1%	80,972	11.5%	0.6%

Notes:

- (1) Relates only to administration, sales and distribution employees.
- (2) Relates only to depreciation in respect of administration, sales and distribution assets.

Payroll and related expenses for administration, sales and distribution employees increased by 18% in hryvnia terms to UAH 234.7 million (U.S.\$30.1 million) in 2009 from UAH 199.0 million (U.S.\$37.8 million) in 2008. The growth was primarily due to an increase in headcount of the sales and logistics department related to completion of the Myronivka chicken complex and the corresponding increase in sales. Payroll and related expenses for administration, sales and distribution employees in U.S. dollar terms decreased by 21% in 2009 compared to 2008 due to the devaluation of the hryvnia.

Services costs increased by 87% in hryvnia terms to UAH 110.1 million (U.S.\$14.0 million) in 2009 from UAH 59.0 million (U.S.\$11.1 million) in 2008 mainly due to increases in maintenance services and in warehouses rent and related security services by 134% and 73% in hryvnia terms, respectively, as a result of the expansion of Myronivka and additional warehouse requirements to meet increased production. In addition, security costs have increased due to the outsourcing of service requirements resulting in a shift from payroll to services costs.

Advertising expenses increased in hryvnia terms by 82% to UAH 82.3 million (U.S.\$10.6 million) in 2009 from UAH 45.2 million (U.S.\$8.4 million) in 2008. In 2009, the "Nasha Ryaba" brand was restyled (the promotion costs of the "Nasha Ryaba" trade mark increased by UAH 38.5 million, or 213% in 2009

compared to 2008) and processed meats were heavily marketed following the acquisition of Ukrainian Bacon (the promotion costs of the Druzhba Narodiv, “Europroduct” and “Baschynsky” brands increased by UAH 3.9 million, or 57% in 2009 compared to 2008) and less in promotion of other types of product. This was partially offset by reduced expenditure on advertising of “Lehko!” and other products. Advertising expenses in U.S. dollar terms increased by 26% in 2009 compared to 2008 due to the reasons discussed above, and were partially offset by the devaluation of the hryvnia.

Representative costs and business trips increased in hryvnia terms by 58% to UAH 68.8 million (U.S.\$8.8 million) in 2009 from UAH 43.4 million (U.S.\$8.3 million) in 2008 mainly due to increased costs related to meetings with MHP’s investors and foreign financial institutions (by UAH 16.3 million, or 52% in 2009 compared to 2008) and an increase in business trips related to the expansion of MHP’s business (by UAH 3.4 million, or 35% in 2009 compared to 2008). Representative costs and business trips in U.S. dollar terms increased by 6% in 2009 compared to 2008 due to the devaluation of the hryvnia.

MHP’s costs for fuel and other materials increased in hryvnia terms by 19% to UAH 50.5 million (U.S.\$6.5 million) in 2009 from UAH 42.3 million (U.S.\$8.0 million) in 2008 as a result of increased sales volume. This increase corresponded to a 20% decrease in U.S. dollar terms due to the devaluation of the hryvnia.

Depreciation expense related to administration, sales and distribution assets increased in hryvnia terms by 146% to UAH 64.6 million (U.S.\$8.2 million) in 2009 from UAH 26.2 million (U.S.\$5.4 million) in 2008 mainly due to the completion of the new head office building and additional distribution trucks in line with increased production.

Insurance expenses increased in hryvnia terms by 217% to UAH 9.8 million (U.S.\$1.3 million) in 2009 from UAH 3.1 million (U.S.\$0.6 million) in 2008 mainly due to increased costs on transport insurance related to an increased number of vehicles and property insurance related to the new head office building and increased warehouse premises.

Government Grants Recognised As Income

The table below summarises the government grants recognised as income by MHP in 2008 and 2009:

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	Change in U.S.\$
VAT refunds	319,382	7.6%	514,367	9.3%	61.1%	59,338	7.4%	65,606	9.2%	10.6%
Processing of live animals	240,652	5.7%	6,094	0.1%	(97.5)%	46,146	5.7%	780	0.1%	(98.3)%
Fruits and vine cultivation	2,455	0.1%	9,114	0.2%	271.2%	468	0.1%	1,145	0.2%	144.7%
Selection and genetic programs in breeding	1,454	0.0%	90	0.0%	(93.8)%	293	0.0%	12	0.0%	(95.9)%
Other government grants	7,406	0.2%	2,099	0.0%	(71.7)%	1,418	0.2%	269	0.0%	(81.0)%
Total	571,349	13.6%	531,764	9.6%	(6.9)%	107,663	13.4%	67,812	9.5%	(37.0)%
<i>% of operating profit before impairment</i>	<i>42.9%</i>		<i>31.1%</i>			<i>42.2%</i>		<i>30.9%</i>		

The government grants as a percentage of total revenue decreased to 10% in 2009 from 14% in 2008 in hryvnia terms. Such decrease was mainly attributable to the discontinuation of government grants related to processing of live animals in 2009. See “—External Factors Affecting MHP’s Results of Operations—State Support for Agricultural Production in Ukraine—Government Grants” for further details. This was however largely offset in 2009 by increases in VAT refunds, which generally increased in line with production and sales.

VAT refunds for the agricultural industry increased in hryvnia terms by 61% to UAH 514.4 million (U.S.\$65.6 million) in 2009 from UAH 319.4 million (U.S.\$59.3 million) in 2008 and increased as a percentage of total government grants recognised as income to 97% in hryvnia terms in 2009 from 56% in 2008. The increase in VAT refunds from 2008 to 2009 was mainly due to increased production and sales volume, and the increase in gross profit.

Operating Profit Before Loss on Impairment of Property, Plant and Equipment

MHP's operating profit before loss on impairment of property, plant and equipment increased by 28% in hryvnia terms to UAH 1,708.7 million (U.S.\$219.3 million) in 2009 from UAH 1,332.3 million (U.S.\$255.3 million) in 2008 as a result of the factors described above. This represented a 14% decrease in U.S. dollar terms due to the devaluation of the hryvnia against the U.S. dollar. Operating profit margin before loss on impairment of property, plant and equipment was relatively stable in 2008 and 2009 despite the discontinuation of government grants related to processing of live animals in 2009, which was largely offset in 2009 by increases in VAT refunds, which generally increased in line with production and sales. The following table shows the operating profit before loss on impairment of property, plant and equipment for each of MHP's segments for the periods shown.

	Year ended 31 December									
	2008		2009		Change in UAH	2008		2009		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations segment result before impairment	1,345,926	32.1%	1,531,584	27.6%	13.8%	255,165	31.8%	196,594	27.7%	(23.0)%
Grain growing operations segment result before impairment	51,702	1.2%	276,751	5.0%	435.3%	10,739	1.3%	35,301	5.0%	228.7%
Other agricultural operations segment result before impairment	(7,036)	(0.2)%	25,372	0.5%	(460.6)%	184	0.0%	3,234	0.5%	1,657.6%
Unallocated corporate expenses	(58,262)	(1.4)%	(125,008)	(2.3)%	114.6%	(10,815)	(1.3)%	(15,845)	(2.2)%	46.5%
Operating profit before loss on impairment of property, plant and equipment	1,332,330	31.8%	1,708,699	30.8%	28.2%	255,273	31.8%	219,284	30.8%	(14.1)%

Loss on Impairment of Property, Plant and Equipment

For the years ended 31 December 2009 and 2008, losses on impairment of property, plant and equipment were UAH 10.4 million (U.S.\$1.3 million) and UAH 90.6 million (U.S.\$11.8 million), respectively.

The impairment losses recognised in 2009 were attributable to impairments associated with the assets used in the production of goose meat and foie gras due to the limited market for these products in Ukraine. The impairment losses recognised in 2008 were due to impairment associated with the assets used in the production of goose meat, foie gras and with the construction in progress, represented by the new head office building, because of decreased market prices for commercial properties as compared to 2007. MHP has applied conservative assumptions in the evaluation and recognition of impairment in respect of the assets used in the production of goose meat and foie gras for the last three years. MHP is in the process of obtaining permits for the export of foie gras to the EU.

Operating Profit and Segment Adjusted EBITDA

Operating profit increased by 37% in hryvnia terms to UAH 1,698.3 million (U.S.\$218.0 million) in 2009 from UAH 1,241.7 million (U.S.\$243.5 million) in 2008 whilst in U.S. dollar terms, operating profit decreased by 10% due to the hryvnia's depreciation against the U.S. dollar in the fourth quarter of 2008 as discussed above. Although the grants related to processing live animals, which amounted to 19% of operating profit in hryvnia terms in 2008, were discontinued in 2009, this was largely offset in 2009 by increases in VAT refunds, which generally increased in line with production and sales. The following tables

provide information relating to MHP's segment results and adjusted EBITDA, in hryvnia and U.S. dollars, respectively:

	Poultry and related operations		Grain growing operations		Other agricultural operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2008	2009	2008	2009	2008	2009	2008	2009
					(UAH'000)			
					(unaudited)			
Segment result	1,345,926	1,531,584	51,702	276,751	(27,462)	14,950	1,370,166	1,823,285
Unallocated corporate expenses							(128,440)	(125,008)
Operating profit							1,241,726	1,698,277
<i>Add back:</i>								
Depreciation	213,115	290,152	50,017	71,731	38,043	42,538	301,175	404,421
Impairment of Property, Plant and Equipment	—	—	—	—	20,426	10,422	90,604 ⁽¹⁾	10,422
Adjusted EBITDA	1,559,041	1,821,736	101,719	348,482	31,007	67,910	1,633,505	2,113,120
<i>Adjusted EBITDA, %</i>	<i>43.9%</i>	<i>38.9%</i>	<i>28.3%</i>	<i>53.3%</i>	<i>6.2%</i>	<i>9.7%</i>	<i>39.0%</i>	<i>38.1%</i>
Contribution to Adjusted EBITDA	95.4%	86.2%	6.2%	16.5%	1.9%	3.2%	100.0%	100.0%

Note:

(1) Including unallocated impairment of Property, Plant and Equipment totalling UAH 70.2 million in 2008.

	Poultry and related operations		Grain growing operations		Other agricultural operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2008	2009	2008	2009	2008	2009	2008	2009
					(U.S.\$'000)			
Segment result	255,165	196,594	10,739	35,301	(2,469)	1,930	263,435	233,825
Unallocated corporate expenses							(19,929)	(15,845)
Operating profit							243,506	217,981
<i>Add back:</i>								
Depreciation	41,230	37,193	8,325	9,011	7,383	5,473	56,938	51,677
Impairment of Property, Plant and Equipment	—	—	—	—	2,653	1,304	11,767 ⁽¹⁾	1,304
Adjusted EBITDA⁽²⁾	296,395	233,787	19,064	44,312	7,567	8,707	312,211	270,961
<i>Adjusted EBITDA, %⁽²⁾</i>	<i>45.6%</i>	<i>39.0%</i>	<i>28.3%</i>	<i>53.1%</i>	<i>8.0%</i>	<i>9.7%</i>	<i>38.9%</i>	<i>38.1%</i>
Contribution to Adjusted EBITDA ⁽²⁾	94.9%	86.3%	6.1%	16.4%	2.4%	3.2%	100.0%	100.0%

Notes:

(1) Including unallocated impairment of Property, Plant and Equipment totalling U.S.\$9.1 million in 2008.

(2) Unaudited

Adjusted EBITDA increased by 29% in hryvnia terms from UAH 1,633.5 million (U.S.\$312.2 million) in 2008 to UAH 2,113.1 million (U.S.\$271.0 million) in 2009. The 13% decrease in U.S. dollar terms in adjusted EBITDA resulted from the hryvnia's sharp depreciation against the U.S. dollar in late 2008. The poultry and related operations segment accounted for UAH 1,821.7 million (U.S.\$233.8 million), or 86% in hryvnia terms of MHP's total adjusted EBITDA, in 2009, an increase of 17% in hryvnia terms from UAH 1,559.0 million (U.S.\$296.4 million) in 2008 (a decrease of 21% in U.S. dollar terms due to the depreciation of hryvnia). Such increase was mainly due to the increased volumes of chicken products sold. The adjusted EBITDA margin for MHP's poultry and related operations segment was high at 43.9% in hryvnia terms in 2008, primarily due to the increase in prices for chicken meat and the concurrent decrease in grain prices, and remained high at 38.9% in hryvnia terms in 2009 notwithstanding the decrease in government grants, which resulted from no longer receiving direct grants for the processing of live animals in 2009 (see "—External Factors Affecting MHP's Results of Operations—Fluctuations in Market Price for Chicken Products", "—External Factors Affecting MHP's Results of Operations—Fluctuations in Grain Prices" and "—External Factors Affecting MHP's Results of Operations—State Support for Agricultural Production in Ukraine—Government Grants" below).

The grain growing segment accounted for UAH 348.5 million (U.S.\$44.3 million), or approximately 16% in hryvnia terms of MHP's total adjusted EBITDA, in 2009, an increase of 243% in hryvnia terms from UAH 101.7 million (U.S.\$19.1 million) in 2008 (an increase of 132% in U.S. dollar terms) mainly due to an increase in prices in 2009 compared to relatively low prices in 2008 and higher yields of sunflower seeds and corn. The other agricultural operations segment accounted for UAH 67.9 million (U.S.\$8.7 million), or approximately 3% in hryvnia terms of MHP's total adjusted EBITDA, in 2009, an increase of 119% in hryvnia terms from UAH 31.0 million (U.S.\$7.6 million) in 2008 (an increase of 15%

in U.S. dollar terms) mainly due to an increase in sausage and cooked meat production volume resulting from the acquisition of Ukrainian Bacon in July 2008.

Other Income/(Expenses), net

Other net income/(expenses) decreased in hryvnia terms by 64% to a net expense of UAH 503.7 million (U.S.\$64.5 million) in 2009 from a net expense of UAH 1,386.0 million (U.S.\$227.3 million) in 2008.

The decrease was primarily attributable to a mainly non-cash foreign exchange loss of UAH 184.0 million (U.S.\$23.6 million) in 2009 as compared to a loss of UAH 1,176.6 million (U.S.\$187.1 million) in 2008. The foreign exchange losses in both 2008 and 2009 were principally due to the impact of the depreciation of the hryvnia against the U.S. dollar and the euro and the resulting revaluation of foreign-currency debt into U.S. dollars at the relevant balance sheet date in accordance with IFRS. The impact was particularly significant in 2008 when the hryvnia devalued rapidly against both the euro and the U.S. dollar in the fourth quarter of 2008, resulting in depreciation of the hryvnia by 46.3% against the euro and 52.5% against the U.S. dollar based on the exchange rates at the end of 2008 compared to the exchange rates at the end of 2007. See “—External Factors Affecting MHP’s Results of Operations—Macroeconomic conditions in Ukraine” above.

Profit Before Income Tax, Income Tax (Expense)/Benefit and Net Profit

MHP’s profit before income tax increased to UAH 1,194.6 million (U.S.\$153.5 million) in 2009 from a loss of UAH 144.3 million (a profit of U.S.\$16.2 million) in 2008 as a result of the decrease of UAH 992.6 million (U.S.\$163.5 million) in foreign exchange losses and a UAH 456.6 million increase in operating profit. In 2008, MHP’s profit before income tax was effectively a loss in hryvnia terms of UAH 144.3 million and effectively a profit in U.S. dollar terms totalling U.S.\$16.2 million because the hryvnia exchange rate fluctuated significantly during 2008 with a rapid devaluation in the fourth quarter of 2008. However, significant profits were generated in the first three quarters when the hryvnia exchange rate was stronger (and thus generated more profits when expressed in U.S. dollars at average exchange rates). The following table provides information relating to MHP’s net profit for the periods presented:

	Year ended 31 December					
	2008	2009	Change in UAH	2008	2009	Change in U.S.\$
	(UAH'000) (unaudited)			(U.S.\$'000)		
Profit before tax	(144,256)	1,194,563	n/a	16,194	153,515	848.0%
Income tax expense	(6,739)	50,558	n/a	(1,279)	6,488	n/a
Profit for the year from continuing operations	(150,995)	1,245,121	n/a	14,915	160,003	972.8%
(Loss)/profit for the year from discontinued operations, net of income tax	(69,926)	—	n/a	(9,722)	—	(100.0)%
Net profit for the year	(220,921)	1,245,121	n/a	5,193	160,003	2,981.1%

The Year Ended 31 December 2007 Compared to the Year Ended 31 December 2008

In 2007 the average exchange rate was UAH 5.05 to U.S.\$1.00, and in 2008 the average exchange rate was UAH 5.27 to U.S.\$1.00 (as the hryvnia devaluated rapidly only in the fourth quarter of 2008) thus profit and loss indicators for 2007 and 2008 were calculated at reasonably comparable exchange rates. See “—Functional and Presentation Currency” above.

Revenues

MHP’s total revenues increased by 75% in hryvnia terms to UAH 4,189.2 million (U.S.\$802.9 million) in 2008 from UAH 2,395.9 million (U.S.\$474.4 million) in 2007. This increase was mainly attributable to an increase in revenue in the poultry and related operations segment by 77% in hryvnia terms from UAH 1,943.6 million (U.S.\$384.9 million) in 2007 to UAH 3,443.1 million (U.S.\$660.0 million) in 2008.

External sales of the poultry and related operations segment accounted for UAH 3,443.1 million (U.S.\$660.0 million), or approximately 82% both in hryvnia and U.S. dollar terms of MHP’s total revenues

in 2008. External sales of the other agricultural operations segment accounted for UAH 491.0 million (U.S.\$93.1 million), or approximately 12% both in hryvnia and U.S. dollar terms, and external sales of the grain growing segment accounted for UAH 255.2 million (U.S.\$49.8 million), or approximately 6% both in hryvnia and U.S. dollar terms of MHP's total revenues in 2008.

The following table presents MHP's revenues by type for 2007 and 2008:

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations segment:										
Revenue from sales of chicken meat	1,433,366	59.8%	2,606,843	62.2%	81.9%	283,835	59.8%	501,013	62.4%	76.5%
Revenue from sunflower oil sales	338,490	14.1%	578,950	13.8%	71.0%	67,028	14.1%	109,974	13.7%	64.1%
Revenue from other poultry related sales	171,711	7.2%	257,281	6.2%	49.8%	34,002	7.2%	49,044	6.1%	44.2%
Sales to external customers . .	1,943,567	81.1%	3,443,074	82.2%	77.2%	384,865	81.1%	660,031	82.2%	71.5%
Grain growing segment:										
Revenue from sales of grains to external customers	194,376	8.1%	255,176	6.1%	31.3%	38,490	8.1%	49,777	6.2%	29.3%
Other agricultural operations segment:										
Revenue from sales of other meat	174,343	7.3%	348,278	8.3%	99.8%	34,523	7.3%	66,122	8.2%	91.5%
Other agricultural sales	83,623	3.5%	142,677	3.4%	70.6%	16,559	3.5%	26,980	3.4%	62.9%
Sales to external customers . .	257,966	10.8%	490,955	11.7%	90.3%	51,082	10.8%	93,102	11.6%	82.3%
Total revenues from continuing operations⁽¹⁾ . . .	2,395,909	100.0%	4,189,205	100.0%	74.8%	474,437	100.0%	802,910	100.0%	69.2%

Note:

(1) Excluding intersegment sales.

Poultry and Related Operations

MHP's revenues in the poultry and related operations segment, which mainly consisted of revenue from sales of chicken meat and sunflower oil sales to external customers, increased by 77% in hryvnia terms mostly due to an increase of 82% in hryvnia terms in revenue from sales of chicken meat from UAH 1,433.4 million (U.S.\$283.8 million) in 2007 to UAH 2,606.8 million (U.S.\$501.0 million) in 2008 as a result of a 43.7% increase in the average selling price for chicken meat and, to a lesser extent, an increase in volumes of chicken products sold.

Revenue from sales of chicken meat to external customers primarily represents sales of chilled chicken, whole or in portions, ancillary products (such as hearts and livers) and frozen chicken. During 2008, consumer demand was relatively high and MHP's existing poultry production facilities were operating at full capacity.

The first phase of the Myronivka farm started production in mid-2007 and reached full capacity by the end of 2007, and was therefore producing at full capacity for the entire year in 2008. The production volume of the Myronivka chicken farm during 2008 represented approximately 41% of MHP's aggregate production volume that year. Production at MHP's other plants remained relatively stable during 2008 and consistent with 2007 volumes.

Revenues from sales of sunflower oil to external customers were UAH 579.0 million (U.S.\$110.0 million), or 13.8% of total revenue in hryvnia terms, in 2008 and UAH 338.5 million (U.S.\$67.0 million), or 14.1% of total revenue in hryvnia terms, in 2007. Revenues in hryvnia terms increased by 71% mainly as a result of a 61.5% increase in hryvnia terms in the average selling price for sunflower oil and, to a lesser extent, an increase in sales volumes. Nearly 100% of the sunflower oil produced was exported in both years.

Revenues from other poultry related sales to external customers increased to UAH 257.3 million (U.S.\$49.0 million) in 2008 from UAH 171.7 million (U.S.\$34.0 million) in 2007, mainly as a result of a 137% increase in the production volumes of convenience food in 2008, primarily reflecting growth in

consumers' disposable income, which led to an increase in demand for convenience foods, whilst fodder sales to third parties were relatively stable.

Grain Growing Operations

MHP's revenue from sales of feed grains to third parties was UAH 255.2 million (U.S.\$49.8 million) in 2008, as compared to UAH 194.4 million (U.S.\$38.5 million) in 2007, and included sales of wheat, barley, rapeseed and soybeans. This 31% increase in hryvnia terms was attributable primarily to an increase in harvested volumes resulting from increases in yields and in the area of land under cultivation and partially offset by low grain prices in 2008.

The intersegment sales of corn and sunflower seeds by the grain growing segment, which were eliminated from MHP's revenues, decreased to UAH 103.7 million (U.S.\$17.7 million) or 36% in hryvnia terms of MHP's total intersegment sales in 2008 compared to UAH 152.4 million (U.S.\$30.2 million) in 2007 primarily due to record low prices for corn in the fourth quarter of 2008.

The table below represents grain sales in 2008 as compared to 2007:

	Year ended 31 December								
	2007	2008	Change in UAH	2007	2008	Change in U.S.\$	2007	2008	Change in volumes
	(UAH'000) (unaudited)			(U.S.\$'000)			(Tonnes in '000)		
Third party sales	194,376	255,776	31.3%	38,490	49,777	29.3%	229	204	(10.9)%
Internal sales	152,419	103,735	(31.9)%	30,182	17,653	(41.5)%	155	167	7.7%
Total sales	346,795	358,911	3.5%	68,672	67,430	(1.8)%	384	370	(3.8)%

Other Agricultural Operations

MHP's revenue in its other agricultural operations segment was mainly generated from the sale of sausages and cooked meat, produced by Druzhba and Ukrainian Bacon, and sales of goose meat, foie gras, beef, milk and fruit.

Revenues from sales to external customers in the other agricultural operations increased by 90% in hryvnia terms (82% in U.S. dollar terms) during 2008 and reached UAH 491.0 million (U.S.\$93.1 million), or 11.7% in hryvnia terms of MHP's total revenues in 2008 as compared to UAH 258 million (U.S.\$51.1 million) in 2007 or 10.8% in hryvnia terms of MHP's total revenues.

MHP's revenues from sales of processed meat to external customers were UAH 348.3 million (U.S.\$66.1 million) in 2008 compared to UAH 174.3 million (U.S.\$34.5 million) in 2007 due to an increase in sausage and cooked meat production volumes by 113% to 16,000 tonnes from 7,500 tonnes in 2007. This substantial volume growth was due primarily to the acquisition of Ukrainian Bacon in July 2008. Average sausage and cooked meat prices increased by 14% during the year to UAH 18.23 per kilogram from UAH 16.06 per kilogram in 2007.

MHP's revenues from other agricultural sales to external customers were UAH 142.7 million (U.S.\$27.0 million) in 2008 and included sales of fruit, milk, foie gras, goose meat and other agricultural products, as compared to UAH 83.6 million (U.S.\$16.6 million) in 2007.

Net Change in Fair Value of Biological Assets and Agricultural Produce

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each balance sheet date as a fair value adjustment. The change in this adjustment from one period to another is recognised in net change in fair value of biological assets and agricultural produce in the profit or loss. The net change in fair value of biological assets and agricultural produce was UAH 44.0 million (U.S.\$6.3 million) in the year ended 31 December 2008 as compared to UAH 71.9 million (U.S.\$14.2 million) in the year ended 31 December 2007.

In 2008 the gain related to poultry and related operations was UAH 99.8 million (U.S.\$17.9 million), primarily driven by prices and margin was mostly attributable to the 44% increase in hryvnia terms in the average sale price for chicken meat and the corresponding increase in segment adjusted EBITDA margins from 33.2% to 43.9% in 2008 compared to 2007, where the gain was UAH 39.2 million (U.S.\$7.8 million) principally in line with increase in chicken production volumes in 2007.

In 2008 the negative change related to the grain growing segment of UAH 47.4 million (U.S.\$10.4 million) in 2008 resulted from record low grain prices and relatively high costs of grain production in 2008.

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations . . .	39,159	1.6%	99,811	2.4%	154.9%	7,754	1.6%	17,854	2.2%	130.3%
Grain growing operations	11,790	0.5%	(47,440)	(1.1%)	n/a	2,334	0.5%	(10,390)	(1.3%)	n/a
Other agricultural operations	20,970	0.9%	(8,358)	(0.2%)	n/a	4,153	0.9%	(1,137)	(0.1%)	n/a
Total	71,919	3.0%	44,013	1.1%	(38.8%)	14,241	3.0%	6,327	0.8%	(55.6%)

Cost of Sales

MHP's cost of sales increased by 62% in hryvnia terms to UAH 2,994.9 million (U.S.\$571.7 million) in 2008 from UAH 1,843.3 million (U.S.\$365.0 million) in 2007 due to a significant increase in production volume and decreased as a percentage of total revenue to 71% in 2008 from 77% in hryvnia terms in 2007 due primarily to lower grain prices and increased vertical integration and efficiency. The table below sets forth MHP's cost of sales by segment for 2007 and 2008:

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Cost of sales related to poultry and related operations	1,479,289	61.7%	2,300,108	54.9%	55.5%	292,929	61.7%	442,326	55.1%	51.0%
Cost of sales related to other agricultural operations	281,111	11.7%	485,410	11.6%	72.7%	55,665	11.7%	91,492	11.4%	64.4%
Cost of sales related to grain growing operations	82,941	3.5%	209,431	5.0%	152.5%	16,424	3.5%	37,892	4.7%	130.7%
Total costs of sales from continuing operations	1,843,341	76.9%	2,994,949	71.5%	62.5%	365,018	76.9%	571,710	71.2%	56.6%

The following table provides information relating to MHP's cost of sales for the periods shown.

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Raw materials and other inventory used	1,206,970	50.4%	2,029,432	48.4%	68.1%	239,004	50.4%	390,421	48.6%	63.4%
Payroll and related expenses ⁽¹⁾	294,468	12.3%	461,219	11.0%	56.6%	58,310	12.3%	86,440	10.8%	48.2%
Depreciation expenses ⁽²⁾	204,002	8.5%	274,971	6.6%	34.8%	40,397	8.5%	51,541	6.4%	27.6%
Other costs	137,901	5.8%	229,327	5.5%	66.3%	27,307	5.8%	43,308	5.4%	58.6%
Total costs of sales from continuing operations	1,843,341	77.0%	2,994,949	71.5%	62.5%	365,018	77.0%	571,710	71.2%	56.6%

Notes:

- (1) Relates only to personnel employed at MHP's production facilities.
- (2) Relates to depreciation of buildings, equipment and other property, plant and equipment at MHP's production facilities and MHP's trucks used in the production process.

The primary reason for the 62% increase in hryvnia terms in the cost of sales during 2008 compared to 2007 was increased production volume of chicken meat as a result of the launch of the first phase of the Myronivka chicken complex in the middle of 2007 and a full year of operation of that phase at generally full capacity in 2008. At the same time cost of sales as a percentage of revenues decreased from 77% in hryvnia terms during 2007 to 71% in hryvnia terms during 2008, mostly due to an increase in MHP's vertical integration and continuing economies of scale.

Raw materials and other inventory used increased by 68% in hryvnia terms to UAH 2,029.4 million (U.S.\$390.4 million) in 2008 from UAH 1,207.0 million (U.S.\$239.0 million) in 2007 driven by increased production volumes and higher grain prices for most of the year before a reduction in the fourth quarter of 2008.

MHP's payroll and related expenses incurred increased by 57% in hryvnia terms to UAH 461.2 million (U.S.\$86.4 million) in 2008 from UAH 294.5 million (U.S.\$58.3 million) in 2007. This increase was mainly attributable to an increase in headcount due to increased production volumes and increases in average salaries and performance based bonuses.

Depreciation increased by 35% in hryvnia terms to UAH 275.0 million (U.S.\$51.5 million) in 2008 from UAH 204.0 million (U.S.\$40.4 million) in 2007 due to additional capital expenditures made in 2008 in connection with the Myronivka project and equipment for grain facilities, which is discussed below in "—Liquidity and Capital Resources".

Other costs incurred increased by 66% in hryvnia terms to UAH 229.3 million (U.S.\$43.3 million) in 2008 from UAH 137.9 million (U.S.\$27.3 million) in 2007, which was in line with all cost of sales components and was primarily driven by increased production volumes.

Cost of Sales Related to Poultry and Related Operations

MHP's cost of sales for the poultry and related operations segment increased by 56% in hryvnia terms to UAH 2,300.1 million (U.S.\$442.3 million) in 2008 from UAH 1,479.3 million (U.S.\$292.9 million) in 2007 and decreased as a percentage of total revenue to 55% in hryvnia terms in 2008 from 62% in hryvnia terms in 2007. The increase in cost of sales was mainly attributable to an increase in production volume of 28% in 2008 compared to 2007.

The cost of raw materials and other inventory in the poultry segment was primarily related to feed grain and other items associated with chicken meat production, such as non-grain fodder components, veterinary products and utilities. Feed grain and sunflower protein represented the major portion of the poultry segment's costs. Feed grain, primarily corn, was produced by the group's grain growing segment and sold between the segments at prices generally consistent with average market prices at the time of harvesting; sunflower seeds were also produced internally but this only met an insignificant part of the poultry segment needs for sunflower seeds.

Cost of Sales Related to Grain Growing Operations

The cost of sales for MHP's grain growing operations increased by 153% in hryvnia terms to UAH 209.4 million (U.S.\$37.9 million) in 2008 compared to UAH 82.9 million (U.S.\$16.4 million) in 2007. This increase was mainly attributable to higher seed grain prices in 2008 compared to 2007 and an increase in harvested land used in grain operations.

Cost of Sales Related to Other Agricultural Operations

MHP's cost of sales for its other agricultural operations segment increased by 73% in hryvnia terms to UAH 485.4 million (U.S.\$91.5 million) compared to UAH 281.1 million (U.S.\$55.7 million) in 2007 primarily due to increased sausage and cooked meat production volumes as a result of the acquisition of Ukrainian Bacon in July 2008.

Gross Profit

MHP's gross profit increased by 98% in hryvnia terms to UAH 1,238.3 million (U.S.\$237.5 million) in 2008 from UAH 624.5 million (U.S.\$123.7 million) in 2007. The following table provides information relating to MHP's gross profit and segment results for the periods presented.

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations:										
Gross profit net of change in fair value effect	464,278	19.4%	1,142,966	27.3%	146.2%	91,936	19.4%	217,705	27.1%	136.8%
Net change in fair value of biological assets and agricultural produce	39,159	1.6%	99,811	2.4%	154.9%	7,754	1.6%	17,854	2.2%	130.3%
Total	503,437	21.0%	1,242,777	29.7%	146.9%	99,690	21.0%	235,559	29.3%	136.3%
Grain growing operations:										
Gross profit net of change in fair value effect	111,435	4.7%	45,745	1.1%	(58.9)%	22,066	4.7%	11,885	1.5%	(46.1)%
Net change in fair value of biological assets and agricultural produce	11,790	0.5%	(47,440)	(1.1)%	n/a	2,334	0.5%	(10,390)	(1.3)%	n/a
Total	123,225	5.2%	(1,695)	(0.0)%	n/a	24,400	5.2%	1,495	(0.2)%	(93.9)%
Other agricultural operations:										
Gross profit net of change in fair value effect	(23,145)	(1.0)%	5,545	0.1%	n/a	(4,583)	(1.0)%	1,610	0.2%	n/a
Net change in fair value of biological assets and agricultural produce	20,970	0.9%	(8,358)	(0.2)%	n/a	4,153	0.9%	(1,137)	(0.1)%	n/a
Total	(2,175)	(0.1)%	(2,813)	(0.1)%	(29.3)%	(430)	(0.1)%	473	0.1%	n/a
Total	624,487	26.1%	1,238,269	29.6%	98.3%	123,660	26.1%	237,527	29.6%	92.1%

Gross Profit Related to Poultry and Related Operations

Gross profit from the poultry and related operations segment increased to UAH 1,242.8 million (U.S.\$235.6 million) in 2008 from UAH 503.4 million (U.S.\$99.7 million) in 2007. The increase was primarily attributable to the 44% increase in hryvnia terms in the average sale price for chicken meat in 2008 compared to 2007 and the 28% increase in production volume due to the Myronivka chicken farm which came on stream in mid-2007 being in full production for the whole of 2008. For more detail see “—Revenues—Poultry and related operations”.

Gross Profit Related to Grain Growing Operations

Gross profit from the grain growing operations segment resulted in a loss of UAH 1.7 million (which in U.S. dollar terms was a profit of U.S.\$1.5 million) in 2008 from a profit of UAH 123.2 million (U.S.\$24.4 million) in 2007 primarily due to decreases in the market prices of most grains produced by MHP, in particular record low market prices for corn in the fourth quarter of 2008. See “Industry Overview—Overview of the World and Ukrainian Markets for Grain”. The company used 100% of the corn it grew to produce fodder for the poultry segment. Accordingly, the loss incurred in the grain segment due to low corn prices corresponded to reduced cost of sales and increased profits in the poultry segment.

Gross Profit Related to Other Agricultural Operations

The other agricultural operations segment returned insignificant losses in hryvnia terms of UAH 2.8 million (which in U.S. dollar terms was a profit of U.S.\$0.5 million) in 2008 relatively similar to a loss of UAH 2.2 million (a loss of U.S.\$0.4 million) in 2007. This difference in result in 2008 was due to the depreciation in the hryvnia against the U.S. dollar.

Gross Profit Margin

MHP's gross profit margin percentage increased to 30% in 2008 from 26% in 2007 both in hryvnia and U.S. dollar terms. The increase was primarily attributable to higher gross profit margins from MHP's poultry operations which increased to 35% in 2008 from 25% in 2007 both in hryvnia and U.S. dollar terms primarily due to increased prices and volumes and MHP's increased vertical integration and cost efficiency.

MHP's gross profit margin in the grain growing segment decreased in hryvnia terms to negative 0.5% in 2008 from 35.5% in 2007 (decreased in U.S. dollar terms to 2.2% from 35.5%, respectively) mostly as a result of record low market prices for corn as discussed in "—Gross Profit Related to Grain Growing Operations" above.

The other agricultural operations segment performed marginally at break-even in 2008 and 2007 and in hryvnia terms had negative gross profit margin of 0.6% in 2008 and negative gross profit margin of 1.0% in 2007 (in U.S. dollar terms a gross profit margin of 0.5% in 2008 and a negative gross profit margin of 0.8% in 2007).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 63% in hryvnia terms to UAH 424.3 million (U.S.\$80.5 million) in 2008 from UAH 260.6 million (U.S.\$51.6 million) in 2007. Selling, general and administrative expenses as a percentage of total revenue decreased to approximately 10% in hryvnia terms in 2008 from approximately 11% in hryvnia terms in 2007.

MHP's selling, general and administrative expenses during these years were as follows:

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount	Percentage of total revenue ⁽¹⁾	Amount	Percentage of total revenue		Amount	Percentage of total revenue	Amount	Percentage of total revenue	
(UAH'000) (unaudited)		(UAH'000) (unaudited)		(U.S.\$'000)		(U.S.\$'000)				
Payroll and related expenses ⁽¹⁾	82,347	3.4%	198,978	4.7%	141.6%	16,306	3.4%	37,820	4.7%	131.9%
Services	34,869	1.5%	58,993	1.4%	69.2%	6,905	1.5%	11,069	1.4%	60.3%
Advertising expenses	48,612	2.0%	45,232	1.1%	(7.0)%	9,626	2.0%	8,361	1.0%	(13.1)%
Representative costs and business trips	39,955	1.7%	43,426	1.0%	8.7%	7,912	1.7%	8,319	1.0%	5.1%
Fuel and other materials used	22,576	0.9%	42,277	1.0%	87.3%	4,470	0.8%	8,045	1.0%	80.0%
Depreciation expense ⁽²⁾	19,244	0.8%	26,204	0.6%	36.2%	3,810	0.9%	5,397	0.7%	41.7%
Insurance expenses	5,708	0.2%	3,093	0.1%	(45.8)%	1,130	0.2%	580	0.1%	(48.7)%
Bank services and conversion fees	4,163	0.2%	2,469	0.1%	(40.7)%	824	0.2%	477	0.1%	(42.1)%
Other	3,099	0.1%	3,592	0.1%	15.9%	616	0.1%	427	0.1%	(30.7)%
Total	260,573	10.8%	424,264	10.1%	62.8%	51,599	10.8%	80,495	10.1%	56.0%

Notes:

- (1) Relates only to administration, sales and distribution employees.
- (2) Relates only to depreciation in respect of administration, sales and distribution assets.

Payroll expenses for administration, sales and distribution employees increased by 142% in hryvnia terms to UAH 199.0 million (U.S.\$37.8 million) in 2008 from UAH 82.3 million (U.S.\$16.3 million) in 2007. This increase was attributable to increased headcount and average salaries and UAH 22.8 million (U.S.\$4.3 million) in bonuses paid to senior management (performance-based and in relation to the IPO).

Services costs increased by 69% in hryvnia terms to UAH 59.0 million (U.S.\$11.1 million) in 2008 from UAH 34.9 million (U.S.\$6.9 million) in 2007 mainly due to increased logistics and distribution costs to support increased production and sales volumes and the increased use of third party consultants.

MHP's costs for fuel and other materials increased by 87% in hryvnia terms to UAH 42.3 million (U.S.\$8.0 million) in 2008 from UAH 22.6 million (U.S.\$4.5 million) in 2007 due to increased production volumes and sales and the consequent expansion and use of MHP's distribution truck fleet.

The decrease in insurance expenses to UAH 3.1 million (U.S.\$0.6 million) in 2008 from UAH 5.7 million (U.S.\$1.1 million) in 2007 was primarily due to lower insurance rates for vehicles obtained by MHP in 2008.

Government Grants Recognised As Income

The table below summarises the government grants recognised as income by MHP in 2007 and 2008:

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue ⁽¹⁾	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
VAT refunds	107,893	4.5%	319,382	7.6%	196.0%	21,365	4.5%	59,338	7.4%	177.7%
Processing of live animals . .	149,689	6.2%	240,652	5.7%	60.8%	29,641	6.2%	46,146	5.7%	55.7%
Fruits and vine cultivation . .	12,206	0.5%	2,455	0.1%	(79.9)%	2,417	0.5%	468	0.1%	(80.6)%
Selection and genetic programs in breeding	6,050	0.3%	1,454	0.0%	(76.0)%	1,198	0.3%	293	0.0%	(75.5)%
Other government grants	8,423	0.4%	7,406	0.2%	(12.1)%	1,668	0.4%	1,418	0.2%	(15.0)%
Total	284,261	11.9%	571,349	13.6%	101.0%	56,289	11.9%	107,663	13.4%	91.3%
<i>% of operating profit before impairment</i>	<i>46.0%</i>		<i>42.9%</i>			<i>46.0%</i>		<i>42.2%</i>		

Government VAT refunds increased by 196% in hryvnia terms to UAH 319.4 million (U.S.\$59.3 million) in 2008 from UAH 107.9 million (U.S.\$21.4 million) in 2007, and increased as a percentage of total government grants recognised as income to 56% in hryvnia terms in 2008 from 38% in hryvnia terms in 2007. This increase was mainly attributable to MHP's growth in chicken meat production volumes and increased gross margin. Grants related to the processing of live animals increased by 61% in hryvnia terms to UAH 240.7 million (U.S.\$46.1 million) in 2008 from UAH 149.7 million (U.S.\$29.6 million) in 2007. This increase was attributable to an increase in the amount of the grant for poultry from UAH 0.5 (U.S.\$0.10) per kilogram of live weight in 2007 to UAH 0.78 (U.S.\$0.15) per kilogram of live weight in 2008 and the increase in production volumes after completion of the first phase of Myronivka in October 2007.

Operating Profit Before Loss on Impairment of Property, Plant and Equipment

The following table provides information relating to MHP's operating profit before loss on impairment of property, plant and equipment in 2007 and 2008.

	Year ended 31 December									
	2007		2008		Change in UAH	2007		2008		Change in U.S.\$
	Amount (UAH'000) (unaudited)	Percentage of total revenue	Amount (UAH'000) (unaudited)	Percentage of total revenue		Amount (U.S.\$'000)	Percentage of total revenue	Amount (U.S.\$'000)	Percentage of total revenue	
Poultry and related operations segment result before impairment	495,705	20.7%	1,345,926	32.1%	171.5%	98,159	20.7%	255,165	31.8%	160.0%
Other agricultural operations segment result before impairment	20,175	0.8%	(7,036)	(0.2)%	(134.9)%	3,995	0.8%	184	0.0%	(95.4)%
Grain growing operations segment result before impairment	145,059	6.1%	51,702	1.2%	(64.4)%	28,725	6.1%	10,739	1.3%	(62.6)%
Unallocated corporate expenses	(42,912)	(1.8)%	(58,262)	(1.4)%	35.8%	(8,498)	(1.8)%	(10,815)	(1.3)%	27.3%
Operating profit before loss on impairment of property, plant and equipment	618,027	25.8%	1,332,330	31.7%	115.6%	122,381	25.8%	255,273	31.8%	108.6%

Loss on Impairment of Property, Plant and Equipment

Loss on impairment of property, plant and equipment was UAH 51.7 million (U.S.\$10.2 million) and UAH 90.6 million (U.S.\$11.8 million) in 2007 and 2008, respectively.

In 2007, MHP carried out a review of its property, plant and equipment and it identified indicators of impairment associated with the assets used in the production of goose meat, foie gras and convenience foods under the "Lehko!" brand.

The impairment losses recognised in 2008 were due to a further impairment associated with the assets used in the production of goose meat and with the construction in progress of the new head office building because of decreased market prices for commercial properties as compared to 2007.

Operating Profit and Adjusted EBITDA

Operating profit increased by 119% in hryvnia terms to UAH 1,241.7 million (U.S.\$243.5 million) in 2008 from UAH 566.3 million (U.S.\$112.1 million) in 2007. The increase primarily reflected the UAH 613.8 million (U.S.\$113.9 million) increase in gross profit and the UAH 287.1 million (U.S.\$51.4 million) increase in grant income, partially offset by the UAH 163.7 million (U.S.\$28.9 million) increase in selling, general and administrative expenses from 2007 to 2008.

The following tables provide information relating to MHP's segment results and Adjusted EBITDA in hryvnia and U.S. dollars, respectively:

	Poultry and related operations		Grain growing operations		Other agricultural operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2007	2008	2007	2008	2007	2008	2007	2008
	(UAH'000) (unaudited)							
Segment result	467,005	1,345,926	145,059	51,702	(2,829)	(27,462)	609,235	1,370,166
Unallocated corporate expenses							(42,912)	(128,440)
Operating profit							566,323	1,241,726
<i>Add back:</i>								
Depreciation	167,670	213,115	26,691	50,017	28,888	38,043	223,249	301,175
Impairment of Property, Plant and Equipment	28,700	—	—	—	23,004	20,426	51,704	90,604 ⁽¹⁾
Adjusted EBITDA	663,373	1,559,041	171,750	101,719	49,063	31,007	841,276	1,633,505
<i>Adjusted EBITDA, %</i>	<i>33.2%</i>	<i>43.9%</i>	<i>49.5%</i>	<i>28.3%</i>	<i>18.8%</i>	<i>6.2%</i>	<i>35.1%</i>	<i>39.0%</i>
Contribution to Adjusted EBITDA	78.9%	95.4%	20.4%	6.2%	5.8%	1.9%	100%	100%

Note:

(1) Including unallocated impairment of Property, Plant and Equipment totalling UAH 70.2 million in 2008.

	Poultry and related operations		Grain growing operations		Other agricultural operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2007	2008	2007	2008	2007	2008	2007	2008
	(U.S.\$'000)							
Segment result	92,476	255,165	28,725	10,739	(560)	(2,469)	120,641	263,435
Unallocated corporate expenses							(8,498)	(19,929)
Operating profit							112,143	243,506
<i>Add back:</i>								
Depreciation	33,201	41,230	5,285	8,325	5,721	7,383	44,207	56,938
Impairment of Property, Plant and Equipment	5,683	—	—	—	4,555	2,653	10,238	11,767 ⁽¹⁾
Adjusted EBITDA⁽²⁾	131,360	296,395	34,010	19,064	9,716	7,567	166,588	312,211
<i>Adjusted EBITDA, %⁽²⁾</i>	<i>33.2%</i>	<i>43.6%</i>	<i>49.5%</i>	<i>28.3%</i>	<i>18.8%</i>	<i>8.0%</i>	<i>35.1%</i>	<i>38.9%</i>
Contribution to Adjusted EBITDA ⁽²⁾	78.9%	94.9%	20.4%	6.1%	5.8%	2.4%	100%	100%

Notes:

(1) Including unallocated impairment of Property, Plant and Equipment totalling U.S.\$9.1 million in 2008.

(2) Unaudited

Adjusted EBITDA increased by 94% in hryvnia terms from UAH 841.3 million (U.S.\$166.6 million) in 2007 to UAH 1,633.5 million (U.S.\$312.2 million) in 2008 (an 87% increase in U.S. dollar terms). The poultry and related operations segment accounted for UAH 1,559.0 million (U.S.\$296.4 million), or 95% in hryvnia terms of MHP's total adjusted EBITDA, in 2008, an increase of 135% in hryvnia terms from UAH 663.4 million (U.S.\$131.4 million) in 2007 (an increase of 126% in U.S. dollar terms) mainly due to increased prices for chicken meat and increased production volumes. The grain growing segment accounted for UAH 101.7 million (U.S.\$19.1 million), or approximately 6% in hryvnia terms of MHP's total adjusted EBITDA, in 2008, a decrease of 41% in hryvnia terms from UAH 171.8 million (U.S.\$34.0 million) in 2007 (a decrease of 44% in U.S. dollar terms) mainly due to decreases in the market prices of most grains produced by MHP. The other agricultural operations segment accounted for UAH 31.0 million (U.S.\$7.6 million), or approximately 2% in hryvnia terms of MHP's total adjusted EBITDA, in 2008, a decrease of 37% in hryvnia terms from UAH 49.1 million (U.S.\$9.7 million) in 2007 (a

decrease of 22% in U.S. dollar terms) mainly due to the decrease in fair value of biological assets and agricultural produce.

Other Income/(expenses), net

Other income/(expenses), net, was a net expense of UAH 1,386.0 million (U.S.\$227.3 million) in 2008 and a net expense of UAH 309.7 million (U.S.\$61.3 million) in 2007. The increase in other expenses, net, was primarily attributable to a non-cash foreign exchange loss of UAH 1,176.6 million (U.S.\$187.1 million) in 2008 as compared to a foreign exchange loss of UAH 66.0 million (U.S.\$13.1 million) in 2007. The foreign exchange loss in 2008 was principally due to the impact of the depreciation of hryvnia against the euro by 46% and against the U.S. dollar by 53% and the resulting revaluation of foreign-currency debt into hryvnia at the relevant balance sheet date in accordance with IFRS.

Profit Before Income Tax, Income Tax (Expense)/Benefit and Net Profit

Profit before income tax in hryvnia terms amounted to a loss of UAH 144.3 million (which in U.S. dollar terms was a profit of U.S.\$16.2 million) in 2008 due to the adverse effect on profit of non-cash foreign exchange losses of UAH 1,176.6 million (U.S.\$187.1 million) in 2008. The following table provides information relating to MHP’s net profit for the periods presented:

	Year ended 31 December					
	2007	2008	Change in	2007	2008	Change in
	(UAH'000) (unaudited)	(UAH'000) (unaudited)	UAH	(U.S.\$'000)	(U.S.\$'000)	U.S.\$
Profit before tax	256,647	(144,256)	n/a	50,822	16,194	(68.1)%
Income tax expense	(2,161)	(6,739)	211.8%	(428)	(1,279)	198.8%
Profit for the year from continuing operations . . .	254,486	(150,995)	n/a	50,394	14,915	(70.4)%
Loss for the year from discontinued operations, net of income tax	(18,182)	(69,926)	284.6%	(3,601)	(9,722)	170.0%
Net profit/(loss) for the year	236,304	(220,921)	n/a	46,793	5,193	(88.9)%

In 2008, MHP’s profit before income tax in hryvnia terms was a loss totalling UAH 144.3 million, which translated to a profit in U.S. dollar terms totalling U.S.\$16.2 million because the hryvnia exchange rate fluctuated significantly during 2008 with a rapid devaluation in the fourth quarter of 2008. Significant profits were generated in the first three quarters of 2008 and expressed in U.S. dollar terms at applicable prevailing exchange rates, while in the fourth quarter of 2008 significant losses were experienced, which were translated to U.S. dollars at generally higher exchange rates, resulting in an annual loss before income tax in hryvnia terms that translated into an annual profit before income tax in U.S. dollar terms. See “—Functional and Presentation Currency” above.

In March 2007, MHP discontinued its natural gas trading operations, which comprised the purchase of gas from gas traders and the resale of the majority of it to third parties. A portion of the gas purchased by MHP was used as an energy source for its own chicken production operations. MHP’s natural gas trading operations accounted for revenue of UAH 44.8 million (U.S.\$8.9 million) in 2007 and a net loss of UAH 0.5 million (U.S.\$0.1 million) in 2007.

In December 2008, MHP sold its stake in Kyivska, which had returned a loss of UAH 21.1 million (U.S.\$3.5 million) in 2008 and UAH 17.1 million (U.S.\$3.5 million) in 2007. The loss on the disposal of Kyivska’s operations was U.S.\$6.2 million. See “—Acquisitions and Disposals” above.

Liquidity and Capital Resources

The following discussion refers primarily to U.S. dollar values, which Management believes best reflect the respective cash flow trends.

MHP’s liquidity needs arise principally from the need to finance its working capital requirements and capital expenditures. During the years under review, MHP has met most of its liquidity needs out of net cash generated from operating activities, bank borrowings, IPO proceeds and the issuance of debt securities.

Working capital, defined as current assets (excluding cash and cash equivalents and bank deposits) minus current liabilities (excluding short-term bank borrowings, bonds issued, lease obligations, accounts payable for property, plant and equipment) was U.S.\$ 203.7 million, U.S.\$214.8 million and U.S.\$292.2 million as at 31 December 2007, 2008 and 2009, respectively. In 2008, total contribution to working capital was U.S.\$140.6 million, however, due to the hryvnia's sharp depreciation against the U.S. dollar in the fourth quarter of 2008 and the related devaluation of the current assets primarily denominated in hryvnia (partially offset by the decrease in hryvnia-denominated liabilities), the amount of working capital in the consolidated balance sheet in U.S. dollars was relatively stable as at 31 December 2007 and 31 December 2008. In 2009, the total contribution to working capital was U.S.\$77.7 million (for details see "—Cash Flows—Net Cash Generated by Operating Activities" below).

In 2007, 2008 and 2009, respectively, MHP had U.S.\$53.1 million, U.S.\$109.0 million and U.S.\$114.0 million of short-term working capital bank loans from Ukrainian banks at the end of each respective year. Approximately 58% of MHP's bank debt as at 31 December 2009 was represented by short-term loans used to finance MHP's working capital needs. Management believes that MHP has sufficient working capital and the ability to fund its operations for at least the next 12 months from the date of this Offering Memorandum.

Cash Flows

The following is a summary of MHP's cash flows in 2007, 2008 and 2009:

	Year ended 31 December		
	2007	2008	2009
		(U.S.\$000)	
Net cash generated by operating activities	98,565	122,718	123,062
Net cash used in investing activities	(107,411)	(213,620)	(125,867)
Net cash generated by/(used in) financing activities	(25,481)	141,866	(28,176)
Net increase/(decrease) in cash	(34,327)	50,964	(30,981)

Net Cash Generated by Operating Activities

The following table provides additional information relating to the net cash generated by MHP's operating activities for the period presented.

	Year ended 31 December		
	2007	2008	2009
		(U.S.\$000)	
Operating profit before working capital changes	156,178	311,512	246,007
Working capital changes	(9,261)	(140,556)	(77,724)
Other operating cash flow ⁽¹⁾	(48,352)	(48,238)	(45,221)
Net cash generated by operating activities	98,565	122,718	123,062

Note:

(1) Other operating cash flow is represented by finance cost paid, interest received and income tax paid.

MHP's cash flows from operating activities primarily resulted from operating profit, as adjusted for non-cash items such as depreciation, net change in fair value of biological assets and agricultural produce, foreign exchange losses and other non-cash items and for changes in working capital. The stronger cash flow in 2008 and 2009 as compared to 2007 was driven primarily by higher prices and greater sales volumes.

The main contributors to working capital relate to the development of MHP's business and the increasing scale of its operations, particularly flowing from the investments relating to the second phase of the Myronivka chicken farm which commenced operations in June 2009, and the expansion of MHP's crop production business in 2008 and 2009, reflected in required increases of inventories, biological assets and trade and VAT receivables.

In 2008, the total contribution to working capital was U.S.\$140.6 million. The main contributors to working capital were:

- a U.S.\$56.7 million contribution to inventories and agricultural produce related primarily to the increase in corn and sunflower inventories for the purposes of hedging against future price increases;
- a U.S.\$39.8 million increase in VAT receivables (in relation to VAT refunds in the ordinary course of business, not government grants, see “—State Support for Agricultural Production in Ukraine—Government Grants—Government VAT refunds for the agricultural industry”) resulting from significant capital expenditure in 2008;
- a U.S.\$23.1 million increase in biological assets, principally in expenditure on grain-growing production (costs associated with preparing land for the 2009 season) as a result of more hectares of land being used; and
- a U.S.\$25.5 million increase in trade accounts receivables primarily as a result of higher prices, increasing sales to supermarkets, and increasing sales of processed meat and convenience food products which have a longer shelf life. In addition, the economic downturn led to an increase in late payments by supermarkets for MHP’s products. Trade accounts receivables are presented net of allowances for irrecoverable debts, which are insignificant and have been relatively stable during the period under review.

In 2009, the net contribution in working capital was U.S.\$77.7 million, which mostly reflected increased taxes recoverable, biological assets and trade accounts receivable and a small increase in inventories, which were partially offset by small increases in trade accounts payable and other current liabilities:

- a U.S.\$42.3 million increase in taxes recoverable mostly related to increased VAT receivables as a result of increased export sales, significant capital expenditure and increased grain inventory as at 31 December 2009 compared to 31 December 2008;
- a U.S.\$17.2 million increase in biological assets mainly as a result of the increase in breeder flocks, broilers and hatchery eggs following completion of the Myronivka chicken complex; and
- a U.S.\$14.5 million increase in trade accounts receivable related to increased sales.

The major component of other operating cash flow was finance costs which relate to external funding and which decreased in line with decreased interest payments from 2008 to 2009 reflected in finance costs, net in the consolidated statement of comprehensive income.

Net Cash Used In Investing Activities

Net cash used in investing activities was U.S.\$107.4 million, U.S.\$213.6 million and U.S.\$125.9 million in 2007, 2008 and 2009, respectively. The increase from 2007 to 2008 was primarily due to increases in purchases of property, plant and equipment in connection with the construction of the Myronivka chicken farm. The decrease from 2008 to 2009 was primarily due to the major capital investments for the Myronivka project that were incurred in 2008. The following table provides additional information relating to the net cash generated by MHP’s investing activities for the period under review.

	Year ended 31 December		
	2007	2008	2009
	(U.S.\$'000)		
Purchases of property, plant and equipment, including			
non-cash investments	(171,311)	(265,206)	(170,913)
Non-cash investments	56,266	63,929	26,607
Assets sale and other cash proceeds from investing activities . .	15,689	3,238	717
Short-term deposits (placements)/withdrawals, net	(8,055)	(15,581)	17,722
Net cash used in investing activities	(107,411)	(213,620)	(125,867)

In 2007, MHP spent U.S.\$100.1 million for property, plant and equipment primarily related to the first phase of the Myronivka chicken farm, and also in connection with the acquisition of additional agricultural machinery for crop production. In 2008, MHP spent U.S.\$179.7 million on purchases of property, plant and equipment, substantially all of which related to the construction of the second phase of the Myronivka

chicken farm, the acquisition of additional agricultural machinery for arable farms and the expansion of its meat-processing facilities. In 2009, MHP spent U.S.\$135.3 million on property, plant and equipment mainly at its Myronivka project (including the Myronivka broiler farm, the new sunflower crushing plant, the Starynska chicken breeding farm and the related increase in fleet of trucks) and additional grain growing agricultural machinery. The decrease in net cash used in investing activities in 2009, as compared to 2007 and 2008, reflects the fact that the bulk of capital expenditures related to the Myronivka chicken farm were made in 2007 and 2008.

Non-cash investments of U.S.\$26.6 million in 2009 primarily represented finance leases and vendor financing arrangements on the purchase of trucks and other equipment for the Myronivka project. The reduced amount of non-cash investments as compared to 2007 and 2008 reflected the fact that the bulk of phase two of the Myronivka chicken farm's capital expenditures that were financed through direct bank-lender payments to the vendor were made in 2007 and 2008.

In April 2007 MHP sold its ZZG subsidiary, a mink farm, for cash consideration of U.S.\$4.8 million, which constituted the majority of assets sale and other cash proceeds from investing activities in that year.

For a description of MHP's capital expenditures over the years discussed, see "—Capital Expenditures" below.

Net Cash Generated by/(used in) Financing Activities

	Year ended 31 December		
	2007	2008	2009
		(U.S.\$'000)	
Net proceeds from loans received	(10,200)	35,902	969
Repayments of corporate bonds issued	—	(41,288)	—
Transaction costs related to corporate bonds issued	(2,106)	—	—
Finance lease payments	(13,175)	(18,544)	(22,957)
Other financing received	—	13,846	(6,188)
Issue of share capital, net of issue costs	—	151,950	—
Net cash (used in)/generated by financing activities	(25,481)	141,866	(28,176)

Net cash used in financing activities was U.S.\$25.5 million in 2007 and U.S.\$28.2 million in 2009, as compared to net cash generated by financing activities of U.S.\$141.9 million in 2008. Net cash flow from financing activities significantly increased in 2008 as a result of its IPO on 15 May 2008, which included the issuance of 10.75 million new shares of the Issuer. The increase in MHP's share capital amounted to U.S.\$33.2 million, whilst share premium on issue constituted U.S.\$128.1 million at the transaction date. The net expenses related to the issue amounted to U.S.\$9.3 million and the net proceeds of the offering, after deducting expenses, amounted to U.S.\$152.0 million. The negative cash flow from financing activities in 2009 was primarily due to reduced external financing of capital expenditures, as well as the repayment of bank and lease indebtedness in accordance with their payment schedules.

Capital Expenditures

MHP has substantially expanded its operations and expects to continue to make significant investments for the expansion of its business. MHP's capital expenditures include expenditures for constructing new facilities, modernising existing facilities and purchasing equipment, vehicles and other miscellaneous items, especially for grain production.

Historical Capital Expenditures

MHP's capital expenditures for the periods under review amounted to U.S.\$171.3 million, U.S.\$247.8 million and U.S.\$170.9 million in 2007, 2008 and 2009, respectively, and mostly related to the construction of the Myronivka chicken farm, which became fully operational in the second half of 2009 and has been operating at full capacity since the end of the third quarter of 2009.

Budgeted Capital Expenditure

A substantial portion of the capital expenditure budgeted in 2010 is for the development of the Vinnytsya chicken farm, which is proposed to be built in four stages. If MHP decides to proceed, construction of the first two phases is expected to commence in late 2010 with the first phase beginning

production in 2013 and both phases becoming fully operational in 2015. The third and fourth construction phases are optional and the decision to proceed with the construction and its timing would depend on the demand level and pricing for chicken meat.

Due to the continued strong performance of the grain growing segment and in line with its strategy of vertical integration, Management has decided to increase MHP's grain growing capacities in the medium to long term up to a total of 300,000 hectares through acquisitions of rights to additional land plots, concentrating on fertile "black soil" areas in proximity to its existing facilities, to the extent land is available at appropriate prices, which will result in the need for additional plant and equipment. See "—Recent Trends and Developments".

Capital Resources

To date, MHP has relied on net cash generated by operating activities, bank loans and issuances of bonds and shares (in the form of GDRs) to finance its capital expenditures. In addition, MHP has financed a certain amount of its equipment purchases through vendor financing and leasing. MHP will not receive any new proceeds from the Notes that are being issued in the Exchange Offer. The principal amount of the Notes that are being issued in the Exchange Offer will replace, to the extent issued in exchange for Existing Notes, the principal amount of the Existing Notes. The Issuer intends to use the net proceeds from the Offering of the New Notes as follows:

- as to approximately U.S.\$100 million, to repay short-term loan facilities provided by various Ukrainian banks, including the U.S.\$35 million loan from ING Bank (Ukraine), the U.S.\$30 million loan from Unicredit, the U.S.\$20 million loan from OTP Bank (Ukraine), and the U.S.\$15 million loan from Universalbank; and
- as to the balance, for general corporate purposes and to finance the expansion and diversification of the Issuer's poultry and grain businesses, principally through the construction of the Vinnytsya chicken farm and land acquisitions (including acquisitions of companies holding land) to increase MHP's aggregate land holdings up to 300,000 hectares. U.S.\$90 million of this amount will be held in cash or cash equivalents but is expected to be used in due course for capital expenditure.

The availability of external financing is influenced by many factors, including MHP's financial position and market conditions. Under certain circumstances, MHP may be required to repay certain indebtedness. The Issuer expects that MHP's current and expected capital resources will be sufficient for its anticipated capital expenditures and other operating needs under its current business plan. See "Risk Factors—Risks Relating to MHP—MHP must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put MHP into default".

As at 31 December 2009, MHP had total indebtedness of U.S.\$512.8 million. The table below sets out MHP's indebtedness as at 31 December 2009:

Indebtedness	Maturity Date	Original currency	Amount Outstanding as at 31 December 2009	Amount Outstanding as at 31 December 2009	Interest Rate
			(UAH millions) (unaudited)	(U.S.\$ millions)	
Senior Notes due 2011 ⁽¹⁾	30/11/2011	U.S. dollars	1,980.3	248.0	10.25%
Commerzbank Loans	2010/2014	EUR	160.8	20.1	EURIBOR plus 1.15%—1.3%
Rabobank Facilities	2010/2014	EUR	393.8	49.3	EURIBOR plus 0.6%—2.25%
Landesbank	2010-2018		99.1	12.4	EURIBOR plus 1.45%
Short-term bank borrowings from Ukrainian banks	2010	UAH and U.S. dollars	910.0 ⁽²⁾	114.0 ⁽²⁾	8.86% for USD 23.82% for UAH ⁽³⁾
Capital lease obligations ⁽⁴⁾	2010-2015	EUR and U.S. dollars	551.0	69.0	
Total indebtedness			4,111.0	512.8	

Notes:

- (1) The carrying amount of the Senior Notes due 2011 include unamortised costs. The principal amount of the Notes that are being issued pursuant to the Exchange Offer will replace, to the extent issued in exchange for Existing Notes, the principle amount of the Senior Notes due 2011.
- (2) MHP is planning to repay an estimated aggregate U.S.\$100 million of short-term loan facilities provided by certain Ukrainian banks. See "Use of Proceeds".
- (3) Weighted average interest rates for the respective currencies.
- (4) Capital lease obligations relate to purchases of trucks, equipment and agricultural machinery. This table does not include vendor financing which at 31 December 2009 amounted to U.S.\$6.3 million.

Approximately 32.0% (U.S.\$164.2 million of U.S.\$512.8 million) of MHP's total indebtedness as at 31 December 2009 was represented by short-term indebtedness (including short-term bank borrowings from Ukrainian banks, the current portion of long-term bank borrowings and the current portion of finance lease obligations) to finance MHP's working capital needs.

Subject to execution of the Offering and the Exchange Offer and the repayment of certain existing indebtedness out of the proceeds of the Offering, MHP's indebtedness profile may change significantly. See "Use of Proceeds".

Debt Securities in Issue

As at the date of this Offering Memorandum MHP's debt securities in issue were as follows. For information regarding maturities, see "—Contractual Obligations" below.

- *Senior Guaranteed Notes due in 2011.* On 30 November 2006, the Issuer issued senior guaranteed notes (the Existing Notes) in an aggregate amount of U.S.\$250.0 million. The Existing Notes bear interest at a fixed rate of 10.25% per annum payable semi-annually and mature on 30 November 2011. JSC MHP, Druzhba, Druzhba Nova, MFC, Oril Leader, Peremoga and Zernoproduct jointly and severally guaranteed all amounts in respect of the Existing Notes. The net proceeds from the offering of the Existing Notes were used by MHP in part to repay indebtedness under certain loan

facilities. The Existing Notes contain covenants that, subject to certain exceptions and qualifications, limit the ability of the Issuer and certain of its subsidiaries to:

- incur additional indebtedness or issue preference shares (Consolidated Leverage Ratio, determined as total debt to EBITDA for MHP’s most recently ended four full fiscal quarters for which publicly available financial statements are available, should not exceed 2.5 to 1 if such incurrence occurs after 31 December 2008);
- make certain restricted payments or investments;
- transfer or sell assets;
- create or incur certain liens;
- enter into sale and leaseback transactions;
- issue or sell shares of the Issuer’s restricted subsidiaries;
- create restrictions on the ability of the Issuer’s restricted subsidiaries to pay dividends or make other payments to the Issuer;
- merge, consolidate, amalgamate or combine with other entities;
- issue guarantees or indebtedness by the Issuer’s restricted subsidiaries;
- enter into transactions with affiliates;
- designate restricted subsidiaries as unrestricted subsidiaries; and
- enter in any business other than permitted business.

The Notes also provide for certain events of default, which, if continuing, may result in the Notes being declared immediately due and payable upon written notice to the Issuer served by the Notes’ trustee or the holders of at least 25% in principal amounts of then outstanding Notes. Such events include, amongst other things:

- default for 30 days in payment when due of interest on the Notes;
- default in payment when due of principal of, or premium on, the Notes;
- failure by the Issuer or any of its restricted subsidiaries to comply for 30 days after written notice with their obligation to repurchase Notes in certain circumstances provided for in the indenture governing the Notes or with any of their obligations under the covenants contained in the Notes; and
- failure by the Issuer or any of its restricted subsidiaries to comply for 60 days after written notice by the Notes’ trustee or the holders of at least 25% in principal amounts of then outstanding Notes, with any of agreements in the documents entered into in connection with the offering of the Notes.

In a case of event of default arising from certain events in bankruptcy or insolvency, all outstanding Notes become due and payable immediately without further action or notice.

The Existing Notes are the subject of the Exchange Offer. If Majority Consent to the Proposed Amendments are obtained in connection with the Exchange Offer and Consent Solicitation, the terms of the Existing Notes will be amended to conform to the terms of the Notes. See “Description of Notes”.

Loan Facilities

In 2007, 2008 and 2009, MHP’s most significant long-term and short term loan facilities included the following:

Long-term loans

- *Commerzbank Loan Facilities.* In September 2005, MFC entered into a loan agreement with Commerzbank for the provision of loan facilities in an aggregate amount of EUR 25.0 million. In 2007, Commerzbank increased the aggregate amount of the loan facilities under the 2005 agreement to EUR 35.0 million. During 2005, 2006 and 2009, Commerzbank opened ten individual

loan facilities for an aggregate amount of EUR 27.4 million with maturity dates between 2007 and 2014. MFC has pledged certain of its movable property to secure its obligations under its long-term loans with Commerzbank. As at 31 December 2009, a portion of Commerzbank borrowings for U.S.\$10.0 million was secured with property, plant and equipment with an aggregate carrying value of U.S.\$5.8 million (UAH 46.4 million) pledged as collateral. As at 31 March 2010, the aggregate amount outstanding under these facilities was EUR 14.0 million with maturity dates between 2010 and 2014.

- *Rabobank Loan Facilities.* During 2005, 2006, 2008 and 2009, JSC MHP and MFC entered into twelve loan facilities agreements with Rabobank for an aggregate amount of EUR 65.0 million. As at 31 March 2010, the aggregate amount outstanding under these facilities was EUR 33.2 million. The maturity dates under the Rabobank Loan Facilities are between 2010 and 2016.
- *Landesbank Loan Facilities.* In 2008, JSC MHP entered into a loan facility agreement with Landesbank for an aggregate amount of EUR 8.7 million with the maturity dates between 2010 and 2018. As at 31 March 2010, the aggregate amount outstanding under these facilities was EUR 8.7 million

Short-term loans

- *ING Bank (Ukraine).* In July 2008, JSC MHP and Druzhba Nova entered into a revolving short-credit line agreement with ING Bank (Ukraine) in an amount of U.S.\$25.0 million. This facility was originally available until October 2009 but was extended to 29 October 2010. The indebtedness is to be repaid in full by end of October 2010 in instalments from 1 August to 29 October 2010. In addition, in July 2008 JSC MHP and Myronivka entered into a U.S.\$35.0 million revolving committed credit line agreement with ING Bank (Ukraine). The indebtedness is to be repaid in full in September 2010 in instalments from 30 June 2010 to 30 September 2010. As at 31 March 2010 the indebtedness under these facilities was U.S.\$59.1 million.
- *OTP Bank (Ukraine).* In December 2008, JSC MHP and Oril Leader entered into a credit facility agreement with OTP Bank (Ukraine) for U.S.\$20.0 million maturing in the first quarter of 2010. The indebtedness was repaid in full in instalments from 8 February 2010 to 4 March 2010. In February 2010 the Group entered into a credit facility agreement with OTP Bank (Ukraine) for U.S.\$20.0 million maturing in the fourth quarter of 2010. As at 31 March 2010, the indebtedness under this facility was U.S.\$9.0 million.
- *Unicredit.* In July 2009, JSC MHP, Peremoga and Druzhba Nova entered into a credit facility agreement with Unicredit for U.S.\$30.0 million until 20 July 2010. The indebtedness is to be repaid in instalments from 1 May 2010 to 20 July 2010. As at 31 March 2010 the indebtedness under this facility was U.S.\$30.0 million.
- *Universalbank.* In October 2009, JSC MHP entered into a credit facility agreement with Universalbank for U.S.\$7.5 million maturing on 29 January 2010. In January 2010, the maturity was extended to 1 March 2010. In February 2010, the maturity was extended to 31 October 2011. The indebtedness is to be repaid in monthly instalments from 30 November 2010 to 31 October 2011 and the amount of the facility was increased to U.S.\$15.0 million. As at 31 March 2010, the indebtedness under this facility was U.S.\$15.0 million.

As at 31 March 2010, the aggregate amount outstanding under short-term facilities was U.S.\$113.1 million. All short-term loans are unsecured.

Vendor Financing and Capital Leases

In each of 2007, 2008 and 2009 MHP purchased trucks, equipment and agricultural machinery for its breeding farms, chicken farms, fodder production facilities and grain production facilities partially financed from loans and leases with certain vendors, including Scania Credit AB, Zeppelin, Big Dutchman, Case, Massey Ferguson, MTZ and various leasing companies. As at 31 December 2009 the aggregate amount outstanding under these agreements (excluding capital leases) including the amount of other short-term payables for property plant and equipment was approximately U.S.\$6.3 million. In addition, the amount of MHP's capital lease obligations as at 31 December 2009 was U.S.\$69.0 million. The weighted average interest rate on MHP's capital lease obligations was 8.6% and 7.8% for payables denominated in euro and U.S. dollar as at 31 December 2009.

Contractual Obligations

The following table summarises MHP's contractual obligations as at 31 December 2009 under its operating leases and other agreements:

	<u>Less than 1 Year</u>	<u>2nd Year</u>	<u>3-5 Years</u> (U.S.\$'000)	<u>More than 5 Years</u>	<u>Total as at 31 December 2009</u>
Debt securities in issue ⁽¹⁾	—	250,000	—	—	250,000
Short-term bank loans	113,960	—	—	—	113,960
Long-term bank loans	25,830	25,090	23,958	6,995	81,873
Capital leases	24,458	21,309	23,237	—	69,004
Vendor financing ⁽²⁾	6,340	—	—	—	6,340
Operating lease obligations	6,886	6,611	17,257	38,256	69,010
Purchases obligations on property, plant and equipment ⁽³⁾	2,307	—	—	—	2,307
Total	179,781	303,010	64,452	45,251	592,494

Notes:

- (1) Contractual obligations under debt securities and bonds do not include unamortised costs or premiums.
- (2) Includes payables for property, plant and equipment.
- (3) Represents contracts with foreign suppliers for the purchase of property, plant and equipment for the development and operation of agricultural properties.

As at 31 December 2009, MHP did not have any contingent commitments or off-balance sheet arrangements.

Management expects to fund its contractual obligations from net cash generated from operating activities, bank borrowings and issuances of debt securities.

Pledges

MFC has pledged certain of its movable property to secure its obligations under its long-term loans with Commerzbank. As at 31 December 2009, a portion of the Commerzbank borrowings in the amount of U.S.\$10.0 million was secured with property, plant and equipment with an aggregate carrying value of U.S.\$5.8 million (UAH 46.4 million) pledged as collateral.

Risk Management Policies

Capital Risk Management

MHP manages its capital to ensure that MHP entities will be able to continue as a going concern whilst maximising the return to its 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. Management reviews the capital structure on a regular basis. Based on the results of this review, MHP takes steps to balance its overall capital structure through the issuance of new shares and new debt or the redemption of existing debt.

MHP's objective is to maintain a leverage ratio of not higher than 2.5 after 31 December 2008 (3.25 up to 31 December 2007 and 3.0 up to 31 December 2008), determined as the proportion of debt to adjusted operating profit. For purposes of this leverage ratio, debt is defined as bank borrowings, bonds issued, long-term finance lease and vendor financing obligations, and payables on other financing arrangements. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable. Adjusted operating profit is defined as operating profit as adjusted for the depreciation expense and losses and gains believed by 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.

As at 31 December 2007, 2008 and 2009 the leverage ratio was determined as follows:

	2007	2008	2009
	(U.S.\$'000 except ratios)		
Bank borrowings	139,733	187,697	195,833
Bonds issued	283,208	246,903	248,046
Finance lease obligations	44,441	69,597	69,004
Payables on other financing arrangements	—	12,484	6,370
	<u>467,382</u>	<u>516,681</u>	<u>519,253</u>
Operating profit	<u>112,143</u>	<u>243,506</u>	<u>217,980</u>
Adjustments for:			
Depreciation expense	44,207	56,938	51,677
Loss on impairment of property, plant and equipment	10,238	11,767	1,304
Gain from change in accounting estimates in respect of valuation of biological assets	(150)	—	—
Adjusted operating profit	<u>166,438</u>	<u>312,211</u>	<u>270,961</u>
Debt to adjusted operating profit	<u>2.81</u>	<u>1.65</u>	<u>1.92</u>
Covenants under Existing Notes	<u>3.25</u>	<u>3.0</u>	<u>2.5</u>

Credit Risk

MHP 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.

MHP 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. No single customer represents more than 8% of sales. The approved credit period for major groups of customers, which include franchisees, distributors and supermarkets, is set at 5-21 days; sales to other customers are performed on prepayment terms.

Limits on the level of credit risk by customers are approved and monitored on a regular basis by Management, who assess amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. No assessment is performed immediately from the date credit period is expired. About 50% of trade receivables comprise amounts due from large supermarkets, which have the longest contractual receivable settlement period amongst customers.

Of the trade accounts receivable balance as at 31 December 2009, MHP's five largest customers represent 34% of the outstanding balance.

Liquidity Risk

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

The following table details MHP's remaining contractual maturity for its non-derivative financial liabilities. Undiscounted cash flows of financial liabilities are based on the earliest date on which MHP can be required to pay. The table includes both interest and principal cash flows as at 31 December 2009. The amounts in the table may not be equal to the balance sheet carrying amounts since the table includes all cash outflows on an undiscounted basis.

	Carrying Amount	Contractual Amounts	Less than 1 Year	1-5 Years	6 or More Years
	(U.S.\$'000)				
Borrowings	195,833	204,711	146,133	51,210	7,368
Bonds issued	248,046	299,115	25,625	273,490	—
Finance lease obligations	69,004	82,816	31,094	51,722	—
Total	<u>512,883</u>	<u>586,642</u>	<u>202,852</u>	<u>376,422</u>	<u>7,368</u>

MHP's target is to maintain its current ratio, defined as a proportion of current assets to current liabilities, at the level of 1.1 - 1.2. As at 31 December 2009, 2008 and 2007, the current ratio was as follows:

	Year ended 31 December		
	2007	2008	2009
	(U.S.\$'000, except ratios)		
Current assets	267,337	337,631	426,977
Current liabilities	184,595	219,453	285,582
Current ratio	1.4	1.5	1.5

Currency Risk

Currency risk is defined as the risk that the value of a financial obligation will fluctuate due to changes in foreign exchange rates. MHP undertakes certain transactions denominated in foreign currencies. Management sets limits on its level of currency exposures. MHP does not use any financial instruments, which are neither available nor routinely used in Ukraine, to hedge against currency exchange rate fluctuations.

The carrying amount of MHP's foreign currency denominated monetary assets and liabilities as at 31 December 2009 were as follows:

Assets	USD-denominated 2009	EUR-denominated 2009
	(U.S.\$'000)	
Trade accounts receivable	3,910	—
Cash and cash equivalents	17,088	37
Total assets	20,998	37
Liabilities	USD-denominated 2009	EUR-denominated 2009
	(U.S.\$'000)	
Trade accounts payable	54,482	4,127
Payables on other financing arrangements	6,370	—
Accounts payable for property, plant and equipment	15	4,232
Interest accrued	2,686	591
Long-term bank borrowings	—	56,043
Short-term bank borrowings	94,000	25,830
Long-term finance lease and vendor financing obligations	15,797	28,750
Short-term bank borrowings and current portion of long-term bank	5,447	19,010
Bonds issued	250,000	—
Finance lease and vendor financing obligations	21,244	47,760
Total liabilities	428,797	138,583

The below details MHP's sensitivity to the strengthening and weakening of the hryvnia against the U.S. Dollar by 5% and the strengthening and weakening of the hryvnia against the euro by 15%. These sensitivity rates represent management's assessment of the reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% and 15% change in foreign currency rates.

	USD-denominated	EUR-denominated
	(U.S.\$'000)	
Profit or loss	20,390/(61,170)	6,927/(20,781)

During the year ended 31 December 2009 and 2008, the Ukrainian hryvnia depreciated against the euro by 6% and 46% and against the U.S. dollar by 4% and 53%, respectively. See also "—External Factors Affecting MHP's Results of Operations—Macroeconomic conditions in Ukraine—Fluctuations in Currency Exchange Rate".

MHP's operating assets are located in Ukraine and denominated primarily in hryvnia and its revenues and costs are also denominated primarily in hryvnia. As explained in "—Functional and Presentation Currency" above, the functional currency of the Group is hryvnia, but its reporting currency is U.S. dollars. Accordingly, any changes in hryvnia and U.S. dollar exchange rates significantly impact the financial statements of MHP when viewed in U.S. dollars, as compared to those statements viewed in hryvnia, as its functional currency. Although, in general, the Group's financial metrics have increased in hryvnia terms, the Group's operating profits in hryvnia have decreased in U.S. dollar terms in line with the depreciation of the hryvnia against the U.S. dollar. In addition, given that MHP's loans are mostly foreign currency denominated, this has led to a further deterioration of net profit given the increased amount of hryvnia required to meet such obligations and that, in turn, has led to a deterioration of equity due to such reduced net profit. The Group recognised foreign exchange losses in the amount of UAH 184.0 million (U.S.\$23.6 million) and UAH 1,176.6 million (U.S.\$187.1 million) in the consolidated statement of comprehensive income in 2009 and 2008, respectively, and U.S.\$15.8 million and U.S.\$229.0 million decreases in equity due to the cumulative translation differences effect. In addition, foreign currency rate fluctuations impact the prices MHP has to pay in hryvnia for certain of its inputs, including, in particular, sunflower seeds, which although purchased in hryvnia, are correlated to world prices denominated in U.S. dollars. The negative effect of a devaluation of the hryvnia against the U.S. dollar is offset by sales of sunflower oil which are in U.S. dollars correlated to world prices.

MHP's foreign currency revenues consist principally of revenues from export sales of sunflower oil and grain, which accounted for 65.8% and 19.7% in U.S. dollar terms of total MHP's export sales in 2009. The increase in MHP's foreign currency revenues from UAH 640.4 million (U.S.\$120.8 million) in 2008 to UAH 1,202.2 million (U.S.\$152.9 million) in 2009 was mainly attributable to an increase in the volume of export sunflower oil sales and an increase both in the volume and price of export grain sales in 2009, supported by the devaluation of the hryvnia against the U.S. dollar and euro.

MHP's foreign currency expenditures consist principally of the cost of purchasing breeder flocks, non-grain components for mixed fodder, production equipment and finance costs. From a cash-flow perspective, MHP's exposure to currency exchange rate fluctuations as a result of its foreign currency payments is partially offset by its U.S. dollar revenues from export sales of sunflower oil and grain, which have been sufficient in 2009 to cover foreign currency denominated finance costs, loans repayments and import purchases for operational activities, including breeder flocks and non-grain components for mixed fodder but not MHP's foreign currency denominated capital expenditure requirements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. MHP borrows on both a fixed and variable rate basis. The primary sources of MHP's funds are loans tied to LIBOR and EURIBOR and are generally at lower interest rates than are available in Ukraine.

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

	Year ended 31 December						
	2007			2008		2009	
	LIBOR	EURIBOR	NBU discount ⁽¹⁾	LIBOR	EURIBOR	LIBOR	EURIBOR
Profit/(loss)	1,080/(1,080)	959/(959)	500/(500)	12,209/(12,209)	6,496/(6,496)	9,741/(9,741)	6,490/(6,490)

Note:

(1) Interest rate on active and passive transactions of the National Bank of Ukraine (the NBU refinancing rate).

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

Livestock Diseases Risk

MHP's agro-industrial business is subject to risks of outbreaks of various diseases. MHP faces the risk of outbreaks of diseases, which are highly contagious and destructive to livestock, such as bird flu, which is a risk to its poultry operations. These and other diseases could result in the death of livestock or a required

cull of livestock. Disease control measures were adopted by MHP to minimise and manage this risk. MHP's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

Commodity Price and Procurement Risk

Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To mitigate this risk MHP accumulates sufficient commodity stock at each balance sheet date to support at least one quarter of operations, and uses commodity forward purchase contracts.

Critical Accounting Policies

The following section discusses accounting policies applied in preparing the financial statements that Management believes are most dependent on the application of estimates and assumptions. Such assumptions or estimates are based on historical experience and currently available information. Actual results may differ significantly from such estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Management, on an ongoing basis, reviews estimates and assumptions, and if it determines as a result of its consideration of facts and circumstances, that modifications in assumptions and estimates are appropriate, results of operations and the financial position as reported in the consolidated financial information may change significantly. The following is a discussion of what Management believes to be the most critical accounting policies:

Revenue Recognition

In the normal course of business, MHP engages in sale and purchase transactions with the purpose of exchanging crops in various locations to fulfil MHP's production requirements. In determining whether such transactions generate revenues, MHP considers detailed requirements for revenue recognition contained in IAS 18 "Revenue". As a result, exchange transactions involving crops of a similar nature and value are not regarded as transactions that generate revenue. In determining whether a transaction represents an exchange, Management considers whether the underlying crops are of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying crops indicates that the substance of the transaction is an exchange of similar goods.

Recognition of Inventories

Management assesses the criteria for recognition of assets set out in the "Framework for the Preparation and Presentation of Financial Statements" adopted by the International Accounting Standards Board, including that significant risks and rewards associated with ownership have transferred to MHP. In making these assessments, Management considers the detailed terms and provisions of agreements with suppliers, involving legal ownership transfer, to identify the date when significant risks and rewards associated with ownership were transferred to MHP.

During the year ended 31 December 2009, MHP acquired components for mixed fodder production from a local supplier under grain purchase financing arrangements. According to the contractual terms, legal ownership to goods passed to MHP on physical delivery to MHP's grain storage facilities, which is generally the date when inventories are recognised in MHP's financial statements. However, based on the assessment of relative significance of risks and rewards associated with ownership of grains, in particular date of transfer of physical damage risk, as well as commercial risks and benefits associated with ownership, Management concluded that these inventories should be recognised on MHP's statement of financial position from the date when they were acquired by the supplier.

Biological Assets and Agricultural Produce

Biological assets and agricultural produce are recorded at fair values less costs to sell. MHP estimates fair values of biological assets and agricultural produce based on the following key assumptions:

- Average meat output for broilers and livestock for meat production;
- Average productive life of breeders held for regeneration and cattle held for milk production;
- Expected crops output;

- Projected orchards output (because orchards involve longer life cycles than other crops, this assumption involves long-term projections, rather than shorter-term estimates);
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and
- Discount rate.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated on MHP's historical and projected results. If actual results differ from MHP's projections, MHP's results could be negatively impacted.

Property, Plant and Equipment

Management estimates the useful life of an item of property, plant and equipment 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.

During the periods presented, MHP identified indicators of impairment associated with the assets used in the production of goose meat and foie gras, assets used in the production of convenience foods under the "Lehko!" brand, and administrative office premises, and assessed the assets' recoverable amount. In determining the recoverable amount of these assets, Management referred to the assets' value in use due to a lack of a reliable basis of estimates of the amounts obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

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

MHP applies a revaluation model to measurement of grain storage facilities. At each reporting date, MHP carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from which would be determined using the fair value. The Group carries out such review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period. Based on the results of this review as at 31 December 2009 and 2007, MHP engaged independent appraisers to revalue its grain storage facilities. The valuation was determined by reference to market-based evidence.

VAT recoverable

The balance of VAT recoverable may be realised by MHP either through a cash refund from the state budget or by a set off against VAT liabilities with the state budget in future periods. Management classified the VAT recoverable balance as current or non-current based on expectations as to whether it would be realised within twelve months of the reporting date. In making this assessment, Management considered MHP's past history of receiving VAT refunds from the state budget which on occasion requires claims to be made in relevant courts. For VAT recoverable expected to be set off against VAT liabilities in future periods, Management based its estimates on detailed projections of expected excess of VAT output over VAT input in the normal course of business.

INDUSTRY OVERVIEW

The following overview includes extracts from publicly available information, data and statistics that have been extracted from official sources and other sources which Management believes to be reliable. The Issuer accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or may use rounded numbers.

Overview of the Ukrainian Markets for Meat Products

Meat Consumption in Ukraine

In accordance with a trend observed in other markets worldwide, the consumption of meat products in Ukraine has grown in line with increasing national income levels. Management therefore believes that consumption levels of meat in Ukraine will continue to grow. The table below shows the level of meat consumption (measured by processed weight) and per capita income of the Ukrainian population in Ukraine in 2005, 2006, 2007, 2008 and 2009. According to GfK, total consumer spending on meat in Ukraine was approximately U.S.\$6.7 billion in 2009.

	2005	2006	2007	2008	2009
Income (U.S.\$ per capita per annum) ⁽¹⁾	1,541.7	2,017.3	2,005.1	2,617.0	1,874.7
Meat consumption (kilograms per capita per annum) ⁽²⁾	39.0 ⁽³⁾	42.0 ⁽³⁾	45.0 ⁽³⁾	51.0 ⁽³⁾	48.0 ⁽⁴⁾

Sources:

- (1) SCSU
- (2) GfK
- (3) Consumption rates are based on domestic production statistics and known imports. It does not include unofficial imports, which, according to GfK, could have accounted for approximately 200,000 additional kilograms of meat per capita in each of 2005, 2006, 2007 and 2008. See “—Poultry Supply in Ukraine” below.
- (4) MHP’s calculations based on the GfK and SCUS data.

The level of meat consumption in Ukraine currently remains below the average consumption level in developing countries and significantly below the consumption levels in developed countries. The level of meat consumption in Ukraine is also below the annual recommended dietary requirements, which, according to INRAMS is approximately 80.0 kilograms per capita per annum. According to MHP’s calculations based on the GfK and SCSU data, in 2009, meat consumption in Ukraine was 48.0 kilograms of meat per capita (measured by processed weight), as compared to 110.9 kilograms per capita in the United States, 92.1 kilograms per capita in Brazil, 60.8 kilograms per capita in Mexico, 54.5 kilograms per capita in Russia and 57.0 kilograms per capita in Hungary (according to FAPRI and, in respect of Hungary, Euromonitor). Management expects consumption levels for poultry in Ukraine to continue to grow in the medium to long term.

In 2009, the aggregate production volumes of all types of meat (in processed weight) remained similar to the 2008 and 2007 levels, which indicates a positive trend given the economic downturn. Meat is produced in Ukraine by both industrial producers and households, with the latter having accounted for 45% of all meat produced in Ukraine in 2009 (in processed weight) according to GfK. In 2009, the percentage of poultry industrially produced in Ukraine (80% of total domestic poultry output, according to GfK) was significantly higher than that of beef (25%), pork (39%) or of meat generally (45%). Management believes that this relatively high level of industrialisation of the poultry industry enables poultry producers (including MHP) to more efficiently respond to increased demand for meat products, as compared to producers of other types of meat.

The consumption of poultry meat has been the main driver in the growth of meat consumption levels in Ukraine during 2005–2008 and only poultry meat consumption demonstrated significant growth in 2009, as poultry is cheaper than beef or pork and, as a result, more affordable to Ukrainian consumers.

Management expects consumption levels for poultry in Ukraine to continue to grow in the short to medium term.

<u>Meat production in Ukraine</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(In thousands of tonnes of processed weight)				
Poultry	491	589	690	799	894
Beef	582	568	522	451	454
Pork	486	526	674	643	527
Total	1,559	1,683	1,886	1,893	1,875

Source: GfK

During the period from 2005 to 2009, the level of industrial poultry production increased year-on-year and, in 2009 as compared to 2008, increased by 13%, while the industrial production of beef and pork decreased by 12% and 2%, respectively and this trend continued for the second consecutive year.

<u>Industrial meat production in Ukraine</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(In thousands of tonnes of processed weight)				
Poultry	315	413	524	632	712
Beef	155	159	166	130	114
Pork	111	162	219	211	207
Total	581	734	909	973	1,033

Source: GfK

In addition, as shown in the table below, in recent years the number of cattle in Ukraine has been continuously decreasing.

	Year Ended 31 December							
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(In million heads)							
Cattle								
Industrial	4.20	3.20	2.70	2.50	2.30	1.90	1.70	1.63
Household	4.90	4.50	4.20	4.00	3.90	3.80	3.40	3.29
Total	9.10	7.70	6.90	6.50	6.20	5.70	5.10	4.92

Source: GfK

According to the SCSU, the number of cattle in Ukraine as of 1 March 2007, 2008, 2009 and 2010 was 6.4 million, 5.7 million, 5.3 million and 5.1 million, respectively.

Poultry Consumption in Ukraine

According to MHP's estimations based on the SCSU and GfK data, the aggregate consumption of poultry meat in Ukraine in 2009 was 1,069,000 tonnes. The annual per capita consumption of chicken meat in Ukraine increased by approximately 5% to 23 kilograms per capita in 2009 as compared to 22 kilograms per capita in 2008, and represented an approximately 28% increase from 18 kilograms per capita in 2007. In line with a trend also observed in other markets worldwide, Ukrainian consumers tend to eat more poultry compared to beef or pork, as poultry is cheaper than beef or pork. The lower price is due to the average conversion rate for poultry (the number of kilograms of fodder required to produce one kilogram of increase in live weight) being significantly lower at approximately two kilograms than the conversion rate for pork at approximately four kilograms and beef at approximately six kilograms. In addition, the price difference is also due to longer growout periods for beef and pork, which is significant given the recent grain price increases. As of 2 April 2010, according to the Agrarian Ministry, the average wholesale price (exclusive of VAT) for one kilogram of poultry meat in the Ukrainian market was UAH 12.24 (U.S.\$1.54), as compared with UAH 21.45 (U.S.\$2.70) and UAH 23.39 (U.S.\$2.95) for one kilogram of beef and pork respectively. In addition, consumers tend to eat more poultry for health reasons, as poultry has a higher protein and lower fat content than beef or pork. The following table shows the relative

percentages of meat consumption in Ukraine represented by poultry, pork and beef and per capita consumption of each type of meat for 2006, 2007, 2008 and 2009.

Year	Poultry Meat		Pork		Beef		Total	
	Kilograms per capita	%	Kilograms per capita	%	Kilograms per capita	%	Kilograms per capita ⁽¹⁾	%
2009 ⁽²⁾	23	49	15	31	10	20	48	100
2008	22	43	19	37	10	20	51	100
2007	18	40	16	36	11	24	45	100
2006	16	38	13	31	13	31	42	100

Source: GfK

(1) Does not include other types of meat, which do not account for material share of meat consumption in Ukraine, or unofficial imports.

(2) MHP's calculations based on the GfK and SCSU data.

The relatively low level of per capita consumption of meat in Ukraine, the replacement of other types of meat with poultry by consumers, the undersupply of other types of meat (such as beef and pork) resulting in more significant increases in prices for these types of meat and the low income levels of the Ukrainian population are all factors that are expected to contribute to continued increasing demand for poultry in Ukraine. In addition, due to the lack of affordable protein substitutes, demand for chicken products in Ukraine is less sensitive to price fluctuations and other factors, such as bird flu (as compared to the demand in certain other European countries, such as Italy and France).

The table below shows the levels of poultry consumption (measured by processed weight) in Ukraine and certain other countries in 2005, 2006, 2007, 2008 and 2009.

Country	2005	2006	2007	2008	2009
	(In kilograms per capita per annum)				
United States ⁽¹⁾	45.3	45.7	45.0	44.0	42.0
Brazil ⁽¹⁾	34.4	34.7	36.2	37.6	37.7
Mexico ⁽¹⁾	26.7	27.7	27.9	29.6	29.3
Russia	17.4 ⁽²⁾	18.0 ⁽²⁾	19.0 ⁽²⁾	19.6 ⁽¹⁾	19.1 ⁽¹⁾
Ukraine	14.0 ⁽³⁾	16.0 ⁽³⁾	18.0 ⁽³⁾	22.0 ⁽³⁾	23.0 ⁽⁴⁾

Sources:

(1) FAPRI

(2) Rosptakhosoiuz

(3) GfK

(4) MHP's calculations based on the GfK and SCSU data.

Poultry Supply in Ukraine

According to GfK, overall poultry meat supply (including poultry meat imports) in Ukraine was approximately 1,088,000 tonnes in 2009, as compared to GfK figures of 1,055,000 tonnes in 2008, 821,000 tonnes in 2007 and 741,000 tonnes in 2006. As indicated in the following table, the increase in supply of poultry in 2009 as compared to 2008 was primarily due to increased output of chicken meat by domestic producers.

	2005		2006		2007		2008		2009	
	Amount	Percentage of total supply	Amount	Percentage of total supply	Amount	Percentage of total supply	Amount	Percentage of total supply	Amount	Percentage of total supply
	(In thousands of tonnes of processed weight, except percentages)									
Domestic supply	491	78	589	79	690	84	799	76	895	82
Imported supply ⁽¹⁾	142	22	152	21	131	16	256	24	193	18
Total supply	633	100	741	100	821	100	1,055	100	1,088	100

Source: GfK

(1) Does not include unofficial imports.

Production volumes have increased significantly since 1999 due to investment in production facilities by industrial producers in the context of increasing demand and improving macroeconomic conditions in Ukraine. Despite this increase in production levels, demand continues to exceed domestic supply by a significant margin and almost all poultry meat produced in Ukraine is consumed domestically.

Industrial production of chicken meat typically involves large-scale production conducted in enclosed chicken farms using a certain degree of industrial technology. Under applicable regulations, chicken products produced by industrial producers must undergo a number of tests to demonstrate their compliance with applicable quality standards. Household producers typically raise chickens outdoors at their own homes in amounts of 10 to 50 birds simultaneously and use no industrial technology in production. Household producers generally use the chicken products they produce for their own consumption, although they may sell part of the chicken meat they produce in small amounts.

The table below shows, for 2006, 2007, 2008 and 2009, domestic poultry supply in Ukraine by category of producer.

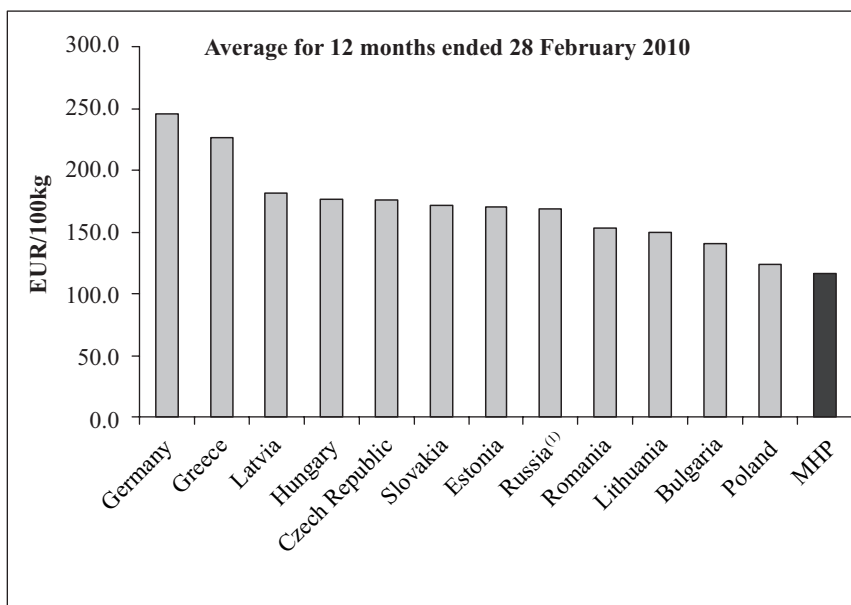
	2006		2007		2008		2009	
	Amount	Percentage of total domestic supply	Amount	Percentage of total domestic supply	Amount	Percentage of total domestic supply	Amount	Percentage of total domestic supply
(In thousands of tonnes of processed weight, except percentages)								
Domestic industrial production	413	70	524	76	632	79	712	80
Domestic household production	176	30	167	24	167	21	182	20
Total domestic supply	589	100	691	100	799	100	894	100

Source: GfK

Industrial production of poultry in Ukraine increased by approximately 13% in volume in 2009 as compared to 2008, by approximately 21% in 2008 as compared to 2007 and by approximately 27% in 2007 as compared to 2006. The increase was principally due to the introduction of additional production facilities, modernisation of technology, increases in productivity, improved veterinary maintenance and control over product quality. Household production slightly increased in 2009 as a result of economic downturn and absence of per capita income growth in 2009. At the same time, household production decreased as a percentage of total domestic supply to 20% in 2009 as compared to 21% in 2008, 24% in 2007 and 30% in 2006. The principal reasons for the decrease in household production as a percentage of domestic supply were: improved economic conditions, resulting in increased income among the Ukrainian population during 2006-2008, enabling consumers to buy chicken products instead of raising their own chicken; an increase in the supply of chicken meat in the market; economic inefficiency of household production, in part due to the high price of fodder (whereas industrial producers can purchase fodder in large quantities at reduced costs); and, more recently, the higher susceptibility of birds raised in households to bird flu and the resulting decrease in demand from customers for chicken produced by households.

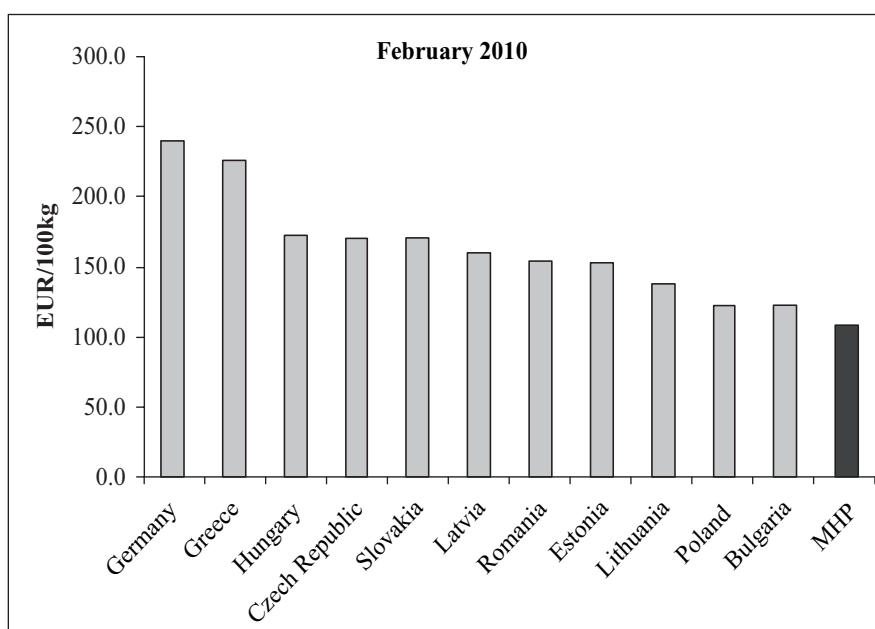
Notwithstanding the growth in the industrial production of chicken meat in Ukraine in recent years, demand for chicken products continues to exceed domestic supply. The shortfall in domestic supply is partially addressed by imported frozen chicken meat. According to GfK, during 2009 Ukraine imported 193,000 tonnes of chicken meat, as compared to 256,000 tonnes in 2008, 131,000 tonnes in 2007 and 152,000 tonnes in 2006. These figures do not reflect illegal imports of chicken products that continue to be sold into the Ukrainian market (principally to the “further processing” segment of the market). Management believes imports of poultry do not materially affect MHP’s business because imported chicken products are typically frozen and are sold to the further processing segment, which does not account for a significant percentage of MHP’s sales.

While the prices for MHP’s chicken products increased during 2007-2009 in UAH terms, they remain relatively low compared to prices in other European countries. The following charts show average chicken prices in various European countries as compared to MHP’s prices for (i) the 12 months ended 28 February 2010; and (ii) February 2010.



Source: CIRCA

(1) Based on the prices of the leading poultry producer in Russia, OJSC “Chezkizovo Group”.



Source: CIRCA

The price of chicken meat in Ukraine tends to correlate with U.S. dollar-denominated world prices as, according to the GfK Report, imported frozen chicken products accounted for approximately 18% of all chicken meat sold in Ukraine in 2009 and more than 20% in 2006 and 2008 (in 2007 it accounted for 16%). Global chicken meat prices decreased in U.S. dollar terms during 2009, as a result of the economic downturn, but chicken meat prices in Ukraine increased in the same period as a result of devaluation of the hryvnia against the U.S. dollar. Furthermore, average sales prices for chicken meat in Russia and Europe are much higher than in Ukraine, which presents a potential future export opportunity for growth and which MHP management expects to support increasing prices for chicken meat in Ukraine.

Poultry Product Distribution in Ukraine

Poultry products in Ukraine are mainly distributed through two distinct wholesale channels: retailers and further processors. Domestic industrially produced chilled poultry products are primarily sold to

retailers in big and medium-size cities, while cheaper frozen meats are predominantly distributed to further processors or to companies which use chicken as an ingredient for their products.

Competition in the Ukrainian Poultry Market

The Ukrainian market for industrially produced poultry is relatively consolidated, with the four largest producers accounting for approximately 72.3% of the market in 2009.

While there are currently approximately 60 Ukrainian industrial enterprises that produce chicken meat, only three of these are considered by MHP to be significant competitors. Currently, approximately 72.2% of the overall industrial production of poultry in Ukraine is attributable to the four largest companies operating in the sector. In 2009, MHP's share of the Ukrainian market for industrially produced poultry was approximately 42.9%. Its closest competitors CJSC "Complex Agromars" ("**Agromars**"), CJSC Poultry Processing Plant "Dniprovsky" ("**Dniprovsky**") and LLC "Ruby Rose Agricole" ("**Ruby Rose**") accounted for 18.4%, 7.2% and 3.8% of the market, respectively, in 2009.

Based on Management's belief that MHP is the lowest cost producer in Ukraine and one of the lowest cost producers worldwide, Management believes it will be difficult for new significant competitors to enter the market due to the time and investment a new entrant would need in order to achieve a comparable position. For example, operating industrial chicken facilities requires obtaining suitable land and constructing production facilities, each of which requires investment and certain governmental permits and licences which may be difficult or time consuming to obtain (see "Business—Licences and Permits"). Further, the Ukrainian poultry production industry is based on a vertically integrated model, which is different from the business model used in most markets where non-Ukrainian chicken production companies operate. Such competitors may have difficulty adapting to the Ukrainian market. Finally, the Ukrainian market lacks the farming infrastructure for hatching and growout of chickens that is commonly used in western poultry markets, which may pose difficulties for western poultry companies seeking to enter the Ukrainian market utilising their traditional approach.

In general, the competitive factors in the Ukrainian poultry industry include product quality, product development, brand identification, breadth of product line and customer service. MHP principally competes with other vertically integrated Ukrainian industrial producers of chicken meat, particularly Agromars, Dniprovsky and, until the end of 2009, Ruby Rose. In 2009, Ruby Rose accounted for approximately 3.8% of the poultry industrially produced in Ukraine, however, it was forced to cease production in early 2010, as a result of the economic downturn. Ruby Rose was a partially integrated industrial poultry producer located in the Kyiv region. In addition to growing chickens, Ruby Rose maintained its own breeding flock and grew some corn and soy. Ruby Rose sold its products under the "Morozivsky Chicken" brand, predominantly in Kyiv and the Kyiv region.

Agromars is a vertically integrated industrial poultry producer, located in the Kyiv region, which maintains breeding flocks, produces hatching eggs and operates facilities for growout and processing of chicken. Agromars also grows an insignificant amount of its own grains used to produce mixed fodder and has grain storage facilities. Agromars sells its products under the "Gavrylivsky Chicken" brand. Although Agromars sells most of its products directly to customers in the Kyiv region, its products are also available in other regions of Ukraine where they are sold through distributors. In early 2007, Agromars acquired OJSC "Kurhansky Broiler" ("**Kurhansky**"), an industrial poultry producer, located in the Kharkiv region. Prior to its acquisition by Agromars, Kurhansky was only partially self-sufficient in hatching eggs and was not an integrated producer. Management believes that following its acquisition by Agromars, Kurhansky's self-sufficiency in hatching eggs has improved. In 2009, Agromars accounted for approximately 18.4% of the poultry industrially produced in Ukraine (taking into account the acquisition of Kurhansky).

Dniprovsky is an industrial poultry producer, located in the Dnipropetrovsk region, which is partially self-sufficient in hatching eggs and mixed fodder. It sells its products mainly in eastern Ukraine under the trademark "Dniprovsky Chicken". In 2008, Dniprovsky significantly increased its poultry production, as a result of constructing new poultry houses. However, currently it has reached its maximum production capacity and a further increase in production would require considerable investments. In 2009, Dniprovsky accounted for approximately 7.2% of the poultry industrially produced in Ukraine.

In 2009, MHP's share of the Ukrainian market for industrially produced poultry was approximately 43%, as compared to approximately 39% and 36% in 2008 and 2007 respectively. The increase in MHP's market share from 2008 levels was primarily due to the completion of the second phase of the Myronivka chicken farm, which has been fully operational since June 2009.

The following table sets out the market share and production volumes of the top four Ukrainian industrial poultry producers and other industrial producers as a whole for the period from 2007 to 2009.

Producer	2007		2008		2009	
	Production volume	Market share	Production volume	Market share	Production volume	Market share
	(In thousands of tonnes of processed weight)	(%)	(In thousands of tonnes of processed weight)	(%)	(In thousands of tonnes of processed weight)	(%)
MHP	190.8	36.4	238.8	37.8	305.5	42.9
Agromars	110.9	21.2	122.2	19.3	130.7	18.4
Dniprovsky	31.3	6.0	39.9	6.3	51.5	7.2
Ruby Rose ⁽¹⁾	35.5	6.8	34.0	5.4	27.0	3.8
Others	155.0	29.6	197.2	31.2	197.3	27.7
Total:	523.5	100.0	632.1	100.0	712.0	100.0

Source: SCSU

(1) Ruby Rose was forced to close its production facilities in early 2010 as a result of the economic downturn.

MHP also competes with Ukrainian households that produce chicken meat. The household segment of the market has traditionally been strong in Ukraine, competing with industrial producers principally based on price. However, household production is decreasing. See “—Poultry Supply in Ukraine”.

Management believes that the market for chilled poultry is generally limited to producers operating in the territory of Ukraine due to the inefficiency of transporting chilled products over significant distances from outside Ukraine. However, MHP to a certain extent faces competition from foreign suppliers of frozen chicken meat, which principally supply their products to the “further processing” sector. Imports of frozen chicken meat are not viewed by MHP as a significant competitive threat, principally because MHP’s sales to the “further processing” sector account for a relatively small percentage of its overall business. In addition, Management believes chilled chicken products are generally preferred by Ukrainian consumers and are unlikely to be replaced to a significant extent by frozen chicken products. Management also believes that, due to consumer preferences, chilled chicken products are able to command a price premium over frozen products.

Recent Developments in the Ukrainian Poultry Industry

Under Ukrainian legislation, local state authorities may regulate prices of certain food products, including chicken meat, pork and beef. In particular, the local state authorities may from time to time oblige producers of certain food products, including chicken meat and beef, to obtain approval from the local officers of the State Prices Inspection before increasing the wholesale prices of such products by more than 1% in any given month. Furthermore, in April 2008 the Cabinet of Ministers of Ukraine introduced a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it limits the profit margin charged on such products. Management believes that the approach MHP uses for determining the wholesale prices for MHP’s products is in line with the formula established by the above procedure.

Effective Introduction of Import Tariff

Prior to March 2005, most poultry imports entered Ukraine through areas having the status of “free economic zones” which exempted such imports from import tariffs. In March 2005, the Ukrainian parliament cancelled all of the tax, customs duty and other incentives and exemptions for such zones. This effectively increased the cost of imported poultry products by an amount equivalent to EUR 0.7 per kilogram of processed weight for the principal types of imported poultry products, such as legs and thighs, and 30%—60% of the customs value but not less than EUR 1.5-3.0 per kilogram of processed weight for whole chicken. This effective introduction of an import tariff temporarily created a trade barrier that resulted in a significant decrease in imports of poultry. As a result, supply problems were created in the “further processing” segment, which heavily relied on imported products. Many further processors started to purchase domestically-produced poultry, which subsequently caused prices to increase in both the wholesale and retail segments of the market.

However, this trade barrier was eased in July 2005 when the import tariff for whole chickens was decreased to 10% of the customs value, but not less than EUR 0.4 per kilogram of processed weight (while the tariff for legs and thighs remained unchanged at EUR 0.7 per kilogram). In addition, certain importers of poultry products who previously benefited from exemptions from import tariffs were able to successfully challenge the cancellation of such exemptions in the Ukrainian courts so that their imports of poultry continued to be exempt from such tariffs until the end of 2007. Prior to the final closure of such zones, in mid-2007, certain importers released unusually high levels of frozen meat into the market, thereby depressing meat prices in the first half of 2007. Although the Ukrainian government currently does not plan to grant any further import tariff exemptions to importers of poultry products, there can be no assurance that this will continue to be the case. After Ukraine became a member of the WTO on 16 May 2008, the import tariffs on most poultry products (including frozen legs and thighs) were set at 10% of the customs value but not less than EUR 0.4 per kilogram of processed weight. At the same time, the import tariffs for fresh and chilled chicken parts were set at EUR 0.7 per kilogram for certain types of products and 30% of the customs value but not less than EUR 1.5 per kilogram of processed weight for other types of products. In December 2008, import tariffs on poultry products were further amended. As of the date of this Offering Memorandum, import tariffs for whole chicken are 15% (fresh and chilled) and 12% (frozen) of the customs value, while import tariffs for chicken parts (including legs and thighs) are 12% (fresh and chilled) and 10% (frozen) of the customs value. Similar trade barriers apply to other types of meat, in particular, import tariffs for beef (fresh, chilled and frozen) are 15% of the customs value and for pork are 12% (fresh and chilled) and 10% (frozen) of the customs value.

Bird Flu and Newcastle Disease

Since 2003, the H5N1 strain of bird flu, which is potentially lethal to humans, has infected poultry flocks and other birds in several countries around the world, including Ukraine. In 2005, 2006 and 2007, several cases of bird flu were reported in wild birds and domestic poultry in the Crimea and Sumy regions of Ukraine. More recently, in the Crimea region of Ukraine, there have been cases of bird flu in domestic birds reported in January 2008 and in wild birds reported in February 2008. Bird flu was reported at a poultry farm in Romania near the Ukrainian border in March 2010, which resulted in Ukrainian state authorities prohibiting importation of poultry products from Romania. Bird flu is highly contagious among birds and can cause sickness or death of some domestic poultry, including chickens, geese, ducks and turkeys. After the outbreak of bird flu, the Ukrainian state authorities continued to implement a variety of emergency measures to prevent the further spread of the virus. This included imposing local quarantine measures in affected areas, as well as mandatory seizures and slaughtering of birds. As of the date of this Offering Memorandum, all quarantine measures have been lifted. Ukraine has also coordinated with Russia its efforts in protecting against bird flu. See “Risk Factors—Risks Relating to MHP—Outbreaks of bird flu and other livestock diseases could have a material adverse effect on MHP’s business”.

In addition, one case of Newcastle disease was reported in Ukraine in February 2006 at a chicken farm in the Kharkiv region of Ukraine. This outbreak is reported to have occurred due to inferior biosecurity measures employed at the farm, including insufficient control over the quality of fodder and bedding. In addition, two cases of Newcastle disease were reported in household birds in the Chernigiv and Rivne regions of Ukraine in April 2006. Control measures were immediately put in place, including culling and incineration of affected birds, quarantine, vaccination and disinfection of affected premises and equipment. These measures were effective, limiting the outbreaks to stand-alone incidents. There have been no other reported cases of Newcastle disease in Ukraine. In January 2010, Ukraine restricted importation of poultry products from Israel following a reported outbreak to have occurred in Israel’s territory.

To date, MHP’s facilities have not been affected by outbreaks of bird flu or Newcastle disease.

Overview of the World and Ukrainian Markets for Grain

World Production, Consumption and Outlook

General

The world grain market (excluding rice) comprises wheat and coarse grains, including corn, barley, sorghum, oats and rye. The global grain market is dominated by producers and traders from China, the United States, the European Union, India and Russia.

As shown in the table below, world grain production for the agricultural year 2009/2010 is forecast at 1,772.9 million tonnes, a decrease of 1% compared to the volume in 2008/2009. For the agricultural year 2009/2010 coarse grain is expected to account for over 62% of total grain production. According to FAS USDA Report on “Grain World Markets and Trade, February 2010” (“**FAS USDA Report**”), from 2008/2009 to 2009/2010, grain consumption is anticipated to increase by 2.3% from 1,712.3 to 1,751.1 million tonnes. Consequently, for the agricultural year 2009/2010 consumption is expected to be less than production by 21.8 million tonnes, thus increasing year end stocks.

The table below provides information on world grain production (total and by crop) in the agricultural years starting from 2005/2006 to 2009/2010.

	Agricultural Year ⁽¹⁾				
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
	(In million tonnes)				
Wheat	619.9	595.7	610.4	682.7	677.4
Coarse grain total including:	978.8	986.2	1,077.9	1,101.6	1,095.5
Corn	698.8	712.4	791.9	791.5	797.8
Barley	136.3	136.4	132.7	154.0	148.9
Sorghum	59.6	57.5	66.3	64.5	62.3
Oats	23.9	23.0	25.9	26.4	24.2
Rye	14.5	12.4	14.4	17.4	17.4
Other	45.7	44.5	46.7	47.8	44.9
Total:	1,598.7	1,581.9	1,688.3	1,784.3	1,772.9

Source: FAS USDA Report

(1) “Agricultural Year” is an industry term, meaning in the case of wheat a year lasting from July to June in the following year and in the case of coarse grains from October to September in the following year. Accordingly, for example, production figures for wheat in 2005/2006 are for the period from July 2005 to June 2006 whereas production figures for coarse grains in 2005/2006 are for the period from October 2005 to September 2006.

According to FAS USDA Report, in the agricultural year 2009/2010, the world’s five largest grain producers (China, the United States, the European Union, India and Russia) are expected to account for approximately 67% of the world’s total grain output. The United States is the largest overall grain producer, accounting for the largest quantity of coarse grains and fifth largest quantity of wheat.

World Trade in Grain

According to FAS USDA Report, the six major wheat exporting countries by volume are Australia, Canada, the European Union, Russia, Ukraine and the United States. The United States is the leading wheat exporter in the world and its market share in the agricultural year 2009/2010 is expected to be approximately 30%. The United States is also expected to reach a market share of approximately 59% of the world export volumes of corn and 18% of the world export volumes of wheat in the agricultural year 2009/2010.

The table below provides information on major wheat⁽¹⁾ exporters and wheat export volumes:

	Agricultural Year				
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
	(In thousand tonnes)				
The United States	27,252	25,041	34,328	27,295	22,500
EU	15,701	13,816	12,271	25,318	19,000
Canada	15,633	19,278	16,561	18,583	18,500
Russia	10,514	10,584	12,552	18,393	18,000
Australia	15,211	11,241	7,449	13,452	15,000
Ukraine	6,461	3,366	1,236	13,037	9,000
Republic of Kazakhstan	3,817	8,089	8,181	5,701	7,500
Others	6,419	7,030	9,043	9,038	7,249
Argentina	8,216	12,168	10,228	8,598	4,000
Turkey	3,208	2,200	1,763	2,342	2,600
Peoples Republic of China	1,397	2,783	2,835	723	1,000
World Total	113,829	115,596	116,447	142,480	124,349

Source: FAS USDA Report

(1) Wheat statistics include wheat, flour and other products on a grain equivalent basis.

The table below provides information on major coarse grain exporters and coarse grain export volumes:

	Agricultural Year				
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
	(In thousand tonnes)				
The United States	61,443	59,157	68,289	51,718	53,950
Argentina	11,243	17,191	17,786	10,241	11,405
Ukraine	7,439	3,942	5,909	11,380	11,015
Brazil	2,826	8,188	8,032	7,183	9,100
Others	8,888	10,976	5,574	5,349	5,270
Australia	5,614	1,993	3,895	4,874	5,060
Canada	4,010	3,787	6,379	3,848	3,625
EU	3,652	5,463	4,679	4,338	3,280
Republic of South Africa	1,429	462	1,145	2,159	2,540
Russia	1,452	1,836	1,419	4,943	2,450
Serbia	Nr	863	132	1,478	2,005
India	501	721	5,539	2,400	1,025
World Total	108,497	114,579	128,778	109,911	110,725

Source: FAS USDA Report

The import market for grains is highly fragmented, with Japan being the largest importer of grains, followed by Mexico. Other large importers include South Korea, Egypt, Saudi Arabia and Taiwan.

Grain Prices

Prices of major grains increased significantly during the 2008 calendar year due to the tightening of the global supply and demand. U.S. wheat prices reached U.S.\$9 per bushel in 2008, an increase of more than 28% as compared to the 2007 price level. Since 2008 the prices of commodities decreased to more normalised levels. According to Datastream, in 2009 U.S. corn prices reached U.S.\$4 per bushel.

The table below provides information on average world prices in USD for wheat, corn and rapeseed:

	2007	2008	2009
	(In USD per tonne)		
Wheat, No.2 Hard (Kansas)	247.4	315.4	204.9
Corn No.2 Yellow	137.7	192.3	139.3
Rapeseed Oil-Crude FOB R'dam	771	1138	817

Source: Datastream

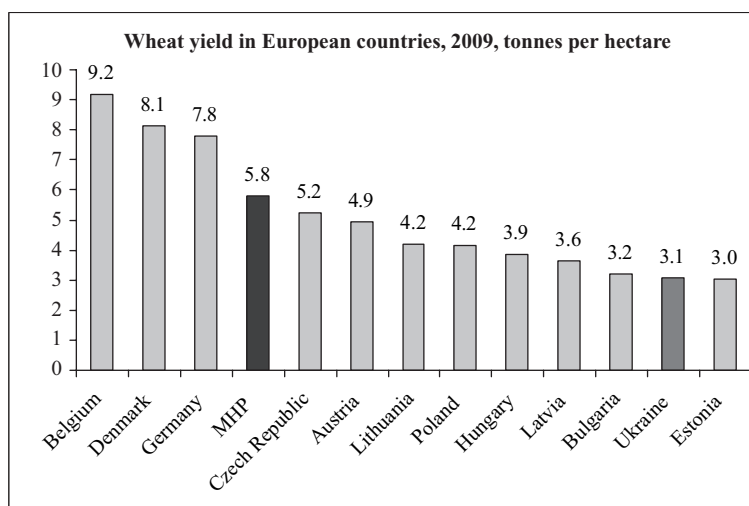
The Ukrainian Grain Market

Overview

Ukraine has a long history of grain production as it benefits from favourable weather conditions and fertile soils. According to the Agrarian Ministry, Ukraine has approximately 42.9 million hectares of agricultural land and 32.4 million hectares of arable land representing approximately 71% and 54%, respectively, of country's total land area. Ukraine's agricultural land benefits from its extremely fertile black soil (*chernozem*) which accounts for about 25% of total world black soil reserves. According to the Agrarian Ministry, in 2009 wheat, barley, corn, sunflowers, sugar beet, soybean and rape accounted for 21%, 15%, 7%, 11%, 1%, 2%, and 4%, respectively, of arable land in Ukraine.

Land under cultivation, and hence grain production, decreased significantly after the collapse of the Soviet Union due to the lack of capital and other resources, the disappearance of farming cooperatives and the absence of incentives for entrepreneurship. In recent years rising demand in the domestic market as well as export markets, the emergence of large farming enterprises and the general revival of the farming industry have all contributed to significant increases in land under crop and grain production.

According to the SCSU, 46 million tonnes of grain were harvested in Ukraine in 2009, compared to 51.0 million tonnes in 1991. The average grain yield was 2.97 tonnes per hectare in 2009 as compared to 3.5 tonnes in 1991. The following chart shows the wheat yield for European countries in 2009.



Source: CIRCA

Management believes that Ukraine's grain production will increase significantly in the medium to long term and exceed pre-1991 production levels. Furthermore, production costs are lower in Ukraine compared to other developed countries mainly due to low labour and land lease costs.

Grain Consumption

According to FAS USDA Report, domestic consumption of wheat in Ukraine is forecast at 12.1 million tonnes for the agricultural year 2009/2010, an increase of approximately 2% from the previous year.

Grain exports

Ukraine borders Russia and several EU member states (Poland, Slovakia, Hungary and Romania), which provides it with easy geographic access to large consumer markets for grain. Ukraine also benefit from a well developed transport infrastructure, including railroads, highways, airports and seaports linking the country to global markets.

Historically, wheat and barley have been the main export crops of Ukraine. In recent years, Ukraine's wheat and barley export volumes have significantly increased making it the sixth largest wheat exporter and the largest barley exporter in the world. Export volumes for corn, which have not traditionally been a large export crop for Ukraine, have been generally increasing since 2006/2007 and Ukraine has become the fourth largest exporter of corn, after the United States, Argentina and Brazil, according to FAS USDA Report.

The major importers of Ukrainian wheat are countries in Asia, especially Bangladesh, South Korea and Philippines, with a combined share of 39% in total Ukrainian wheat exports. EU countries also import Ukrainian wheat with Spain accounting for 14% of total Ukrainian wheat exports. African countries-Kenya, Egypt and Tunisia account for a combined share of 14% in total Ukrainian wheat exports.

In the agricultural year 2008/2009, Ukraine was the largest exporter of barley. In 2009/2010 it is forecast to be the third largest producer behind EU and Russia. Its main markets are the Middle East and North Africa, with Saudi Arabia being the key market with a 53% share of total Ukrainian barley exports.

Export volumes for corn, which has not traditionally been a large export crop for Ukraine, have been generally increasing since 2006/2007. According to FAS USDA Report, Ukraine has become the fourth largest exporter of corn, after the United States, Argentina and Brazil, with Russia and Belarus being the main importers of Ukrainian corn. Further development in the poultry and swine industry, along with growing demand from Ukrainian poultry and swine feed producers, is expected to further increase Ukrainian corn production.

Regulation of the Ukrainian Agricultural Market

Legal Framework

The Law of Ukraine, "On State Support of Agriculture of Ukraine" dated 24 June 2004 (the "**State Support Law**"), sets out various state policies aimed at supporting the production of agricultural products and the development of the agricultural market in Ukraine. The State Support Law authorises the Cabinet of Ministers of Ukraine (the "**CMU**") to specify which kinds of agricultural products, including grain crops and chicken meat, in any given year will be subject to state pricing regulation. Once specified by the CMU, the Agrarian Ministry sets the minimum and maximum interventional prices for the relevant agricultural products in Ukraine. The minimum and maximum prices are not mandatory trade prices but are used as benchmarks against which the state will determine whether intervention is necessary to stabilise prices for agricultural products in Ukraine. Stabilisation of prices for agricultural products is carried out by the Agrarian Fund of Ukraine (the "**Agrarian Fund**"), a state specialised institution which is authorised to implement a pricing policy in agrarian industry.

State Price Stabilisation

Although prices for agricultural products in Ukraine generally follow world prices, the Agrarian Fund carries out price stabilisation for a particular agricultural product when prices exceed or fall below the maximum or minimum interventional prices by 5% or more.

The Agrarian Fund carries out price stabilisation by conducting forward purchases of agricultural products into the State Intervention Fund (maintained by the Agrarian Fund) or selling agricultural products from the State Intervention Fund. In 2010, the Agrarian Fund is required to purchase 1,084,000 tonnes of wheat and meslin (mix of wheat and rye), 106,000 tonnes of rye, 8,800 tonnes of barley, 5,600 tonnes of corn, 368,000 tonnes of sugar, 6,000 tonnes of dried milk and 18,000 tonnes of dairy butter into the State Intervention Fund. The amounts allocated to the Agrarian Fund for this purposes will not be known until the Verkhovna Rada of Ukraine adopts the state budget, which is expected at the end of April 2010.

When prices for a particular agricultural product deviate by more than 20% from the maximum/minimum interventional price, the Agrarian Fund may suspend trade in the agricultural product and consult with market participants. If the consultation process is not successful, the Agrarian Fund may

request that the CMU impose, amongst other measures, mandatory maximum and minimum interventional prices for all participants in the market of such agricultural product. If temporary price regulation fails to improve the market of such agricultural product, the CMU must prepare and submit to the Ukrainian Parliament a draft law for the provision of temporary budget subsidies to the relevant Ukrainian agricultural producers.

The establishment and operation of the domestic grain market is further regulated by the Law of Ukraine, "On Grain and Grain Market in Ukraine" dated 4 July 2002. This law defines, among other things, the participants in the grain market, the scope of the state regulation of this market and general requirements for the storage of grain.

Imports and Exports

Import duties are currently imposed on various grain crops pursuant to the Law of Ukraine "On Customs Duty of Ukraine", dated 5 April 2001. The import duty on wheat, meslin and corn is equal to 10% of the customs value of imported wheat, meslin and corn, except for seed wheat, meslin and corn, on which there is no import duty. The import duty imposed on rye is equal to 20% of customs value of imported rye. The import duty imposed on barley, rye, and oats is equal to 5% of customs value of imported barley and oats.

State Support for Agricultural Producers

As a matter of state policy and to enhance the development of its agricultural industry, Ukraine provides various types of support to Ukrainian agricultural producers. The following types of financial support are currently available to Ukrainian agricultural producers:

Tax Exemptions

Fixed Agricultural Tax

Under Ukrainian law, producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, in accordance with the Law on Fixed Agricultural Tax, agricultural companies engaged in the production, processing and sale of agricultural products may choose to be registered as payers of FAT, provided that their sales of agricultural goods of their own production account for more than 75% of their gross income. FAT is paid in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, duties for geological survey works and duties for trade patents. The amount of FAT payable is calculated as a percentage of a deemed value of all of the land plots (determined as of 1 July 1995) leased or owned by a taxpayer (and which are used for agricultural production purposes). According to the amendments included into the Law on Fixed Agricultural Tax in 2008, the FAT regime was extended for an unlimited period of time. There is however no guarantee that the FAT regime will not be discontinued in the future.

State Subsidies

VAT Refunds for the Agriculture Industry

The extended VAT subsidy provisions for agricultural companies were renewed from 1 January 2009 and, as of that date have unlimited duration. These provisions allow agricultural producers in Ukraine, including MHP, to retain the difference between the VAT that they charge on their agricultural products (currently at the rate of 20%) and the VAT that they pay on items purchased for their operations, rather than remitting such amounts to the state budget. The amount of subsidy received as a result of application for this special VAT regime may be used for agricultural purposes as well as for any other business purposes. This VAT benefit was received by MHP in 2009 and continues to be available to MHP. Prior to the effectiveness of these new VAT provisions on 1 January 2009, MHP also received appropriate VAT benefits in 2007 and 2008. However, it was only allowed to retain the amount of such benefit to support production of its own products.

The precise scope of the state subsidies described below depends on the funds allotted for these purposes in the state budget for the relevant year and the implementation measures undertaken by the government in allocating and distributing the relevant funds to agricultural producers. The terms and amounts of government subsidies available in 2010 will not be known until the Verkhovna Rada of Ukraine adopts the state budget, which is expected at the end of April 2010.

Government Grants Related to Processing of Animal Products

During the years ended 31 December 2007, 2008 and 2009, the Budget Laws established subsidies for companies engaged in the processing of live animals (poultry, cows and pigs). This subsidy was provided to MHP's chicken farms in the form of a payment for each animal slaughtered at the farms and fluctuated from UAH 0.5 to UAH 1.0 per animal during 2007 and 2008. This type of subsidy was also available to MHP's beef and pork processing facilities. The regulations required to provide similar grants were not issued in 2009 and are not expected to be issued in respect of 2010. Although direct government grants for the processing of live animals, which amounted to UAH 240.7 million (U.S.\$46.1 million) in 2008, were discontinued in 2009 (except for UAH 6.1 million (U.S.\$0.8 million) received by MHP in relation to beef and pork processing), the negative impact on MHP's operating profits were largely offset in 2009 by the increases in VAT refunds, which generally increased in line with production and sales.

Government Grants Related to Breeding Programmes

The 2009 Budget Law allocated UAH 30 million (U.S.\$3.8 million) for support of agricultural companies engaged in chicken, pig and cattle breeding. Most of these funds are made available to state-owned companies having the status of a pedigree plant, selection centre or pedigree poultry farm. However, private agricultural companies with a similar status (such as MHP) are also entitled to subsidies or partial compensation of costs incurred in connection with pedigree resources. The subsidy is capped at a certain maximum amount per egg or head of cattle.

Government Grants Related to Crop Growing

The amount of this type of subsidy is calculated based on the size of the area on which a particular crop has been grown. In particular, in 2009 the companies growing spring sugar beets for the Ukrainian market were entitled to receive subsidies of UAH 750 (U.S.\$95) per hectare of planted area and those growing fibre flax were entitled to receive subsidies of UAH 640 (U.S.\$81) per hectare.

A state subsidy is also available for entities engaged in plant breeding. In addition, the state covers 50% of the premiums paid by such entities to insurance companies for insuring certain agricultural crops, including wheat, rye, corn, soy beans and sunflower.

Government grants on fruits and vine cultivation

In accordance with the respective laws on State Budget two companies of the Group were entitled to receive grants for the years ended 31 December 2007, 2008 and 2009 for the creation and cultivation of orchards, vines and berry-fields.

State support of Crop Cultivation on Irrigated Land

The government compensates 50% of electricity and fuel costs incurred by agricultural producers engaged in crop cultivation on irrigated land in connection with the irrigation of such land.

Partial Compensation for Finance Costs

Agricultural producers are entitled to receive partial compensation for finance costs under loans from Ukrainian banks. The aggregate amount of this benefit is determined by the annual state budget of Ukraine. In 2009, the CMU adopted an annual plan establishing which type of loans (depending on, amongst other things, their designated purpose and term) would be subsidised by the state, as well as the amount to be compensated, based on the 2009-2013 programme adopted by the CMU in 2009 for 2009-2013.

The 2009 annual plan provided for an interest rate rebate, subject to compliance with the rebate requirements, for companies that secured agricultural loans in relation to (i) the construction of poultry farms for loans granted between 2007 and 2008 (ii) the reconstruction of poultry farms, acquisition of machinery and equipment for loans granted in 2009 (iii) the purchase of animal feed and feed grains of the 2008 harvest and (iv) the construction of poultry farms granted in 2009.

For the construction of poultry farms two interest rate rebates were available: (a) 1.5 times the NBU discount rate for long-term loans in Ukrainian hryvnia and (b) 12% for long-term loans in foreign currency. For loans obtained for the reconstruction of poultry farms, acquisition of machinery and equipment, an interest rate rebate of two times the NBU discount rate was available and for loans

obtained for the purchase of animal feed and feed grains, an interest rate rebate of two times the NBU discount rate was available. Finally, for loans obtained in 2009 to fund the construction of poultry farms, a 90% interest rate rebate was available.

In 2009, the NBU discount rate fluctuated between 10.25% and 12%. In 2009, MHP benefited from the interest rebate mentioned in item (iii) above.

Such compensation is allocated to agricultural producers by local authorities on a competitive basis by tender committees organised by local state administrations and consisting of representatives of various state authorities. Tender committees publicly announce the terms and conditions of the tender following the announcement by the Ministry of Agricultural Policy of Ukraine or chief departments of agricultural development of local state administrations of the allocation of the state budget funds for the purposes of such compensation. If an application is successful, the applicant is provided with a certificate confirming, among other things, the total amount to be received by the applicant and is included in the register of borrowers qualifying for such compensation.

As of the date of this Offering Memorandum, the 2010 State Budget Law of Ukraine has not been adopted by the Parliament of Ukraine and the 2010 annual plan has not been adopted by the CMU.

Other Subsidies

The state also partially subsidizes agricultural machinery purchased by agricultural producers. Agricultural producers are required to meet certain conditions to qualify for these subsidies.

BUSINESS

Overview

MHP is one of the leading agro-industrial companies in Ukraine, focusing on the production of chicken meat and, to an increasing extent, the cultivation of various grains. MHP is the leading poultry company in Ukraine, accounting for approximately 43% of all chicken meat industrially produced in Ukraine in 2009, according to SCSU. MHP also has an important and expanding grain operation with what Management believes to be one of the largest agricultural land portfolios in Ukraine. In aggregate, MHP leases approximately 180,000 hectares of land for its operations, of which approximately 150,000 hectares are used in the grain growing segment for grain production, approximately 27,000 hectares are used in the other agricultural segment primarily for fruit orchards, as pasture for cattle and pigs and to grow grain for fodder for cattle and pigs, and approximately 3,000 hectares are used by the poultry and related operations segment. In addition, MHP produces and sells sunflower oil as a by-product of its fodder production, as well as sausages, cooked meats, convenience food products, goose meat, foie gras, beef and fruit.

In 2009, MHP had revenues of UAH 5,552.2 million (U.S.\$711.0 million) and profit of UAH 1,245.1 million (U.S.\$160 million) from continuing operations. Chicken meat and grain sales accounted for approximately 62% and 6%, respectively, of MHP's revenues in 2009. MHP has grown significantly in recent years. As at 31 December 2009, MHP's total assets were UAH 9,086.2 million (U.S.\$1,137.9 million) as compared to assets of UAH 7,119.1 million (U.S.\$924.6 million) as at 31 December 2008.

MHP's facilities are amongst the most technologically advanced in Ukraine:

- *Chicken production and distribution facilities.* MHP operates vertically integrated chicken production facilities comprising four chicken farms, which produced approximately 285,000 tonnes of chicken meat in 2009 as compared to approximately 225,000 tonnes in 2008. The chicken farms are serviced by two breeder farms (at which hatching eggs are produced), three fodder mills, 11 distribution centres and three sales operations. Management believes this vertical integration allows MHP to reduce production and transportation costs, better coordinate and control various stages of production, reduce delivery times for its end products and improve the overall quality of its products. In addition, each of MHP's chickens is hatched, grownout and processed within the same chicken farm, providing a significant biosecurity advantage over other industrial producers which acquire chicks or chickens from third parties for growout and processing. In line with industry practice, MHP acquires its breeder flocks from a specialist producer in Germany.

In 2004, MHP commenced the construction of the Myronivka chicken farm in the Cherkasy region. MHP completed the first phase of the Myronivka project in October 2007, resulting in an annual production capacity of 100,000 tonnes of chicken meat at that farm. After the completion of the second phase of the Myronivka project in June 2009, the Myronivka chicken farm became fully operational with an annual production capacity of approximately 200,000 tonnes of chicken meat at that farm. The completion of the Myronivka project has significantly expanded MHP's production in chicken meat and during 2009 MHP increased its monthly chicken meat production and sales volume by almost 47%, compared to 2008. Management believes that the Myronivka chicken farm is currently the largest chicken meat production facility by volume in Ukraine and one of the largest chicken meat production facilities in Europe.

In addition to its three other chicken farms in Ukraine, MHP also produces convenience food products at its MMPP facility, which is one of the largest and most technologically advanced convenience food facilities in Ukraine.

MHP continues to seek expansion opportunities and is considering the construction of another chicken farm in the Vinnytsya region. If MHP decides to proceed, construction of the first two phases is expected to commence in late 2010 with the first phase beginning production in 2013 and both phases becoming fully operational in 2015. The third and fourth construction phases are optional and the decision to continue the construction would depend on demand and pricing. If all four phases are completed, this new project is expected to be approximately twice as big as the Myronivka chicken farm, with each phase having an annual production capacity of 100,000 tonnes of chicken meat. As a result of its expansion programme, MHP expects to achieve further economies of scale, decrease its per unit operating costs and acquire greater market share in Ukraine. MHP is also considering the possibility, in the longer term, of exporting to various EU countries should it receive the relevant permits to do so.

- *Grain growing facilities.* MHP currently leases approximately 150,000 hectares of land at its five principal grain growing facilities where it cultivates corn and sunflowers in support of its chicken operations and, to an increasing extent, other grains such as wheat and rape for sale to third parties. In 2009, MHP produced approximately 960,480 tonnes of grain with yields per hectare significantly higher than Ukraine's average. See “—Products—Grains” below. Since the harvest of 2008, MHP has been self-sufficient in corn, which is its main fodder ingredient. MHP intends to expand its grain growing capacities in the medium to long term up to a total of 300,000 hectares through acquisitions of rights to additional land plots in Ukraine, concentrating on fertile “black soil” areas in proximity to its existing facilities.
- *Other agricultural facilities.* MHP operates facilities for the production of sausages, cooked meats, goose meat, beef, foie gras and fruit. These facilities utilise approximately 27,000 hectares of leased land. This land is used by MHP to farm pigs and cattle and to grow various fodder crops, including corn, wheat and barley. The recent acquisition of the Ukrainian Bacon facility in July 2008 enabled MHP to meet the increased demand in Ukraine for sausages and cooked meat products leading to the increase in volumes of such products sold by 54% as compared to 2008. Based on research conducted by GfK, MHP is the leader in a highly fragmented meat-processing market in Ukraine, accounting for approximately 10% of all sausages and cooked meats produced in Ukraine in 2009.

MHP distributes its chicken products through its own branded franchise points of sale and on a wholesale basis directly to retailers, including supermarkets and hypermarkets, foodservice businesses and industrial producers. In 2009, MHP sold approximately 40% of its chicken and other meats through “Nasha Ryaba” branded franchise outlets, 40% to supermarkets and other retail chains and 20% to other retailers, including traditional independent shops and convenience stores. MHP currently exports its frozen chicken and convenience food products to the CIS, primarily Kazakhstan and Georgia, which together accounted for approximately 4% of its 2009 volumes of poultry and related products sold. MHP sells most of its chicken products under the “Nasha Ryaba” brand. MHP also sells convenience food products under the “Lehko!” and “Toropyshky” brands, premium beef under the “Certified Angus” brand, foie gras under the “Foie Gras” brand and sausages and cooked meat products under the “STOV Druzhba Narodiv”, “Baschinsky” and “Europroduct” brands. MHP's other meat products are sold principally to retailers and supermarkets. MHP sells all of the rapeseed it produces and approximately 50% of the wheat it produces to Ukraine-based traders for export using forward-dated contracts denominated in U.S. dollar, with the remaining portion of wheat sold through the spot markets in Ukraine and insignificant amounts used for fodder production.

Competitive Strengths

Management believes that MHP benefits from the following competitive strengths:

- *Leading market position in a large and growing market for poultry products.* MHP is the leading producer of poultry products in Ukraine, with a 2009 market share for industrially produced chicken meat of approximately 43%, according to SCSU. Management expects the annual consumption levels of meat in Ukraine to continue to grow in the medium to long term to be in line with other more developed countries. Management believes that MHP's established market position and reputation for quality enhance its bargaining position with respect to MHP's national retail customers. MHP's scale also helps it to realise production and marketing economies of scale, and positions MHP to capitalise on the expected continued growth and development of the Ukrainian market. Management also believes that MHP enjoys a competitive advantage over both existing competitors and possible new entrants due to the significant time and investment that would be required for them to achieve a comparable market position.
- *Strong brands.* MHP has strong brands in the consumer markets in which it operates. Based on research conducted by GfK in February 2010, unprompted brand recognition of MHP's “Nasha Ryaba” brand was 95%, and prompted brand recognition was 100%. MHP also has several other national and regional brands for processed meat products. Management believes that its brands are perceived as representing the highest quality and greatest reliability thereby helping to support a strong pricing strategy. MHP intends to continue to focus its marketing efforts on enhancing the value of its brands, particularly “Nasha Ryaba” which recently underwent a successful restyling and has been relaunched in a modernised form to maintain its appeal to its expanding customer base.
- *Vertically integrated operations which reduce costs and enhance quality control.* MHP owns and operates each of the key stages of chicken production processes, from feed grains and fodder production to

egg incubation and growout to processing, marketing, distribution and sales (including through MHP's franchise outlets). In 2009, MHP internally produced all of the fodder required for its chicken operations and since 2008 MHP has been self-sufficient in corn, the main ingredient in its fodder. The use of sunflower protein as a substitute for imported soy protein reduces MHP's fodder production costs. MHP also produces a significant portion of its requirements for hatching eggs and is expected to be fully self-sufficient during the second half of 2010 pursuant to the expansion of the hatching facilities at the Starynska chicken farms in light of the increased production at the Myrnovika chicken farm. In addition, MHP's land plots are consolidated at five principal farms. The consolidated nature of MHP's land plots and their proximity to MHP's storage, fodder production and chicken facilities enable MHP to achieve economies of scale and support vertical integration due to efficient use of machinery and reduced transport and storage costs. MHP also uses chicken droppings for part of its needs for fertiliser for grain production. Vertical integration reduces MHP's dependence on suppliers and its exposure to increases in raw material prices. Management believes this is particularly important in developing markets, such as Ukraine, to avoid supply interruption and price volatility. As such Management believes that vertical integration also creates synergies in a number of other areas and reduces per unit costs. In addition to cost efficiency, vertical integration also allows MHP to maintain strict biosecurity and to control the quality of its inputs and the resulting quality and consistency of its products through to the point of sale.

- **Expanding grain operations allow MHP to benefit from increases in grain prices.** MHP's current business developed from its grain trading activities in 1999 and 2000, when MHP was one of the leading grain traders in Ukraine. MHP currently grows corn and sunflowers, to support the vertical integration of its chicken production and, increasingly, other grains such as wheat and rape for sale to third parties, on approximately 150,000 hectares of leased land. In 2009, MHP produced 960,480 tonnes of grain (of which 32% was sold to third parties), compared to 735,179 tonnes in 2008. MHP leases agricultural land located primarily in the highly fertile black soil regions of Ukraine. Black soil has a significant percentage of organic matter, and Management believes that the quality of MHP's land plots enables it to minimise its fertiliser and fuel costs. In addition, Management believes that its grain operations help MHP to exercise strict cost control over its chicken operations and maintain self-sufficiency in corn required for its expanding chicken operations. Furthermore, if the current moratorium on sales of agricultural land in Ukraine is lifted, MHP will have a priority over third parties to acquire ownership of the plots it currently leases (should the owners decide to sell), thereby giving MHP a competitive advantage over new entrants into the Ukrainian grain cultivation market.
- **Diversified sales structure.** In 2009, approximately 40% of MHP's chicken products were sold through branded franchise outlets and a further 60% were sold to other retailers. MHP operates an extensive branded franchise network, which Management believes is unique among Ukrainian food businesses, consisting of approximately 2,330 franchise outlets as of 31 December 2009. MHP supplies chicken and various other meat products to a number of nationwide supermarket chains, including Metro Cash & Carry, Auchan, Fozzy, Billa, Furshet and Velyka Kyshenya. This makes MHP's products more widely available and helps 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.
- **Developed distribution and sales network.** To support its sales, MHP maintains a distribution network consisting of 11 distribution and logistical centres and three sales operations within major Ukrainian cities. MHP uses its own refrigerated trucks for the distribution of its products, which Management believes reduces overall transportation costs and delivery times. MHP's distribution and logistical centres also provide general support to MHP's franchisees and monitor franchisees' compliance with MHP's retail standards. Management believes that MHP's extensive distribution network helps it to enhance its overall customer service, and to secure its market positioning, by ensuring quality, reliability and timely product delivery and increases the overall availability of MHP's products.
- **High biosecurity standards.** MHP employs strict biosecurity measures throughout its entire poultry production process, from breeding to poultry production, as well as fodder production facilities in order to minimise the risk of contamination and disease at its chicken production facilities. These measures include, amongst other things, keeping chickens within indoor production facilities,

employing multi-site farming, disinfecting vehicles entering production areas, regularly monitoring the health of livestock and employees and providing the means to trace each batch of chicken to its production facility. In addition, unlike many other producers which acquire chicks or chickens from third party suppliers, MHP's chickens are typically hatched, grown-out and processed within a single chicken farm. Management believes MHP's biosecurity system not only complies with Ukrainian legislation but is in line with international best practices. MHP also imposes strict hygiene standards on its franchisees and monitors compliance with these standards through continuous random inspections. In addition, MHP complies with the high hygiene standards of its retail customers. MHP has never been required to recall any of its products and has not experienced any claims relating to food quality issues.

- **Modern technology.** MHP employs advanced technologies at its various production facilities, and Management believes that MHP's chicken farms and its grain cultivation, fodder and convenience food production facilities are amongst the most modern 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 has introduced a new line of gas-packaged chicken products to the market which have extended shelf life. MHP sources the equipment for its chicken production facilities from leading European suppliers, including Big Dutchman (Germany), MOBA (Netherlands), VDL (Netherlands), Meyn Food (Netherlands), Pas Reform (Netherlands), CFS (Netherlands), Sprout Matador (Denmark), Harlev (Denmark) and Buhler AG (Switzerland). Management believes that the benefits of its modern equipment and advanced technologies are reflected in MHP's favourable performance indicators (including chicken survival rate) and production costs. MHP also applies modern farming practices supported by modern machinery in its grain cultivation business, which helps it to optimise yields and to reduce wastage and consumption of fuel.
- **Focus on consumer-driven innovation.** MHP was the first to introduce a number of value-added products to the Ukrainian market, including its "Lehko!" line of convenience food products and meat snacks and is meeting growing demand in Ukraine by expanding its range of sausages and cooked meats. MHP has also been a leader in retailing and packaging innovation, such as its branded franchise "Nasha Ryaba" network and the introduction of a new line of gas-packaged chicken products to the market which have extended shelf life. Management believes that these consumer driven innovations address a shifting trend among consumer preferences in Ukraine toward healthier, higher quality and convenient food consumption.
- **Experienced management team and industry expertise.** MHP has been active in agricultural operations since 1998, and MHP's founder, Mr. Kosyuk, was one of the first to capitalise on opportunities in the Ukrainian agricultural market following Ukraine's transition to a market economy. Most of MHP's senior management team is comprised of experienced professionals who have worked closely and effectively together, have been with MHP since 1998, when MHP started its grain trading activities, and together have over 100 years of combined agro-industry experience. Management believes that MHP's agro-industry expertise will help it to identify and capitalise on additional opportunities in the future.

Strategy

MHP's overall objective is to maintain and expand its position as one of the leading agro-industrial companies in Ukraine, by strengthening its position as the leading Ukrainian poultry production company and developing its grain cultivation operations. Key elements of its strategy include:

- **Expanding chicken production capacity.** In order to meet the expected growth in demand for chicken meat in Ukraine, MHP completed the construction of the Myronivka chicken farm which has been fully operational since the middle of 2009. This greenfield project enabled MHP to substantially increase its poultry production to 285,000 tonnes in 2009, which represents an increase of approximately 27% over 2008 production levels. With Myronivka operating at full capacity, MHP's annual poultry production capacity has reached approximately 330,000 tonnes which will enable a projected 16% increase in production in 2010 over 2009 production levels. The Myronivka complex incorporates a breeding farm, a new hatchery, a modern processing plant and a fodder plant. Management believes that the Myronivka chicken farm is currently the largest chicken meat production facility by volume in Ukraine and one of the largest chicken meat production facilities in Europe. MHP continues to seek expansion opportunities and is considering the construction of

another chicken farm in the Vinnytsya region. If MHP decides to proceed, construction of the first two phases is expected to commence in late 2010 with the first phase coming into production in 2013 and both phases becoming fully operational in 2015. The third and fourth construction phases are optional and the decision to continue the construction would depend on demand and pricing. If all four phases are completed, this new project is expected to be approximately twice as big as the Myronivka chicken farm, with each phase having an annual production capacity of 100,000 tonnes of chicken meat. As a result of its expansion programme, MHP expects to achieve further economies of scale, decrease its per unit operating costs and acquire greater market share in Ukraine. MHP is also considering the possibility, in the longer term, of exporting to various EU countries should it receive the relevant permits to do so. See “—Overview of Operations—Poultry and Related Operations—New Production Facilities for Chicken Operations” below.

- ***Expanding capacity for grain production.*** In light of world prices and demand, MHP intends to further expand its grain cultivation capacities by acquiring rights to additional high-yielding land plots throughout Ukraine, particularly in areas near its existing grain production facilities. MHP intends to expand its grain growing capacities in the medium to long term up to a total of 300,000 hectares through acquisitions of rights to additional land plots in Ukraine, concentrating on fertile “black soil” areas in proximity to its existing facilities. Management believes that increased grain production also complements MHP’s chicken capacity expansion programme, in line with MHP’s plans for continued vertical integration including self-sufficiency in the corn it requires for fodder production. In addition, expanded grain operations would position MHP to capitalise on any further increases in grain prices through its sales of grain to third parties. If the current moratorium on sales of agricultural land in Ukraine is lifted, MHP will consider the acquisition of ownership rights both to the plots it currently leases, pursuant to its priority rights to acquire such plots, and of additional plots.
- ***Strengthening vertical integration.*** MHP perceives vertical integration as key to maintaining consistently high quality standards and reducing costs by realising economies of scale, especially in a developing economy like Ukraine. MHP aims to maintain self-sufficiency in corn requirements for its fodder production as it expands its chicken production capacity. In addition, MHP intends to continue to find complementary uses for the various by-products of its production processes. For example, it is currently using sunflower husks from oil pressing for bedding at its chicken production facilities and as a fuel to generate steam energy for one of its fodder plants and intends to continue to increase its self-sufficiency in energy resources. MHP also uses chicken droppings for part of its needs for fertiliser for grain production.
- ***Continuing to develop MHP’s distribution network and customer base.*** MHP plans to further develop its distribution network by opening additional distribution centres in major Ukrainian cities to capture additional retail shelf space, improve geographic coverage and increase product availability and visibility. Management believes that MHP will benefit from its position as a significant supplier of chicken and other meat products to Ukraine’s modern supermarket chains as these chains continue their rapid national expansion. Management also believes that the quality and leading position of its “Nasha Ryaba” branded products will also assist MHP’s bargaining position with these supermarket chains and will help MHP in its goal of maintaining its position as one of their key suppliers for a wide range of chicken and other meat products. MHP has also applied for certification to export its products into the EU and in 2010/2011 is expecting that such certification can be obtained (although several aspects of the procedure are out of MHP’s control).
- ***Continuing agro-industrial diversification.*** MHP has continually sought to develop new business lines and intends to continue this focus on producing value-added products, such as new convenience food products under its “Lehko!” brand, in order to further improve its sales margins and to strengthen its brands. As part of this diversification strategy, MHP acquired Ukrainian Bacon in 2008 and is currently considering further development and expansion of its meat processing facilities.

History

MHP was established in 1998 as Closed Joint Stock Company “Myronivsky Hliboproduct”. The establishment of MHP was initiated by Yuriy Kosyuk, who has since managed MHP and is currently the Issuer’s Chief Executive Officer. Set forth below are the significant milestones in the development of MHP.

- 1998** MHP obtained a controlling stake in MFC, as a result of which it became one of the leading domestic grain traders in Ukraine.
- 1999** MHP began chicken production at its newly-established Peremoga chicken farm and over the next five years developed its vertically integrated chicken production operations through the addition of two chicken farms (Druzhba Nova and Oril Leader) and two chicken breeding facilities (Starynska and Shahtarska).
- 2002** The “Nasha Ryaba” brand was introduced for fresh chicken meat.
- 2003** The “Nasha Ryaba” branded franchising programme was launched. In December 2003, MHP became the first Ukrainian business to receive a loan from IFC for the expansion and modernisation of its production facilities.
- As part of its diversification strategy, between 2003 and 2006, MHP launched several new business initiatives, including selling and producing foie gras and goose meat products, producing pork, sausages and cooked meats, cultivating corn, sunflower, wheat, rye and other crops, and breeding and raising pedigree cattle to produce high quality beef products under MHP’s “Certified Angus” brand.
- 2004** As part of its vertical integration strategy, a sunflower processing factory was established at MFC to produce vegetable protein from sunflower seeds for use in mixed fodder. MHP also began selling sunflower oil, a by-product of the protein production.
- 2005** Zernoproduct, a corn, wheat, barley and sunflower farm established in 2004 as a joint venture by Snyatynska joined the MHP group. Katerynopilsky Elevator, a fodder mill and feed grains storage facility was also added to the MHP group. These initiatives increased MHP’s control over its fodder production and allowed MHP to begin selling fodder to third parties. In May 2005, MHP established Zavod ZBV to produce pre-cast concrete panels for the construction of poultry houses.
- 2006** The Issuer was incorporated on 30 May 2006, under the laws of Luxembourg to serve as the ultimate holding company for MHP.
- In January, MHP completed the construction of MMPP, one of the largest and most technologically advanced facilities for the production of convenience food products in Ukraine. MHP began producing chicken, beef and pork convenience food products under the “Lehko!” brand at this facility. In addition, pursuant to its strategy for increased grain production, MHP acquired a grain farm, Urozhay, and established two additional grain farming companies—Lypivka and Agrofort.
- MHP completed the acquisition of majority stakes in Druzhba, a producer of sausages and beef, and Crimea Fruit, which cultivates and sells apples, pears, peaches, plums, sweet cherries, grapes and strawberries.
- On 30 November 2006, the Issuer completed a U.S.\$250 million offering of high yield notes listed on the London Stock Exchange.
- 2007** The first phase of the Myronivka chicken farm started operating at the design capacity of that first phase in October 2007. It is located near Kaniv in the Cherkasy region. MHP also expanded its Starynska breeding farm and installed two new fodder production lines at its Katerynopilsky Elevator facility to ensure sufficient supply of hatching eggs and fodder to the Myronivka chicken farm.
- 2008** On 9 May, MHP announced the Initial Public Offering of its ordinary shares in the form of global depositary receipts (the “GDRs”) listed on the London Stock Exchange. MHP is the first Ukrainian agro-industrial company to list on the London Stock Exchange.
- As part of this diversification strategy, the group acquired an 80% interest in the meat-processing company, Ukrainian Bacon, to enable it to meet increasing demand for sausages and cooked meat and, as a result, expanded its range of products to include sausages and cooked meat products under the “Baschinsky” and “Europroduct” brands.

In 2008, MHP became self-sufficient in corn which is used in the manufacture of fodder for its chicken and other meat products.

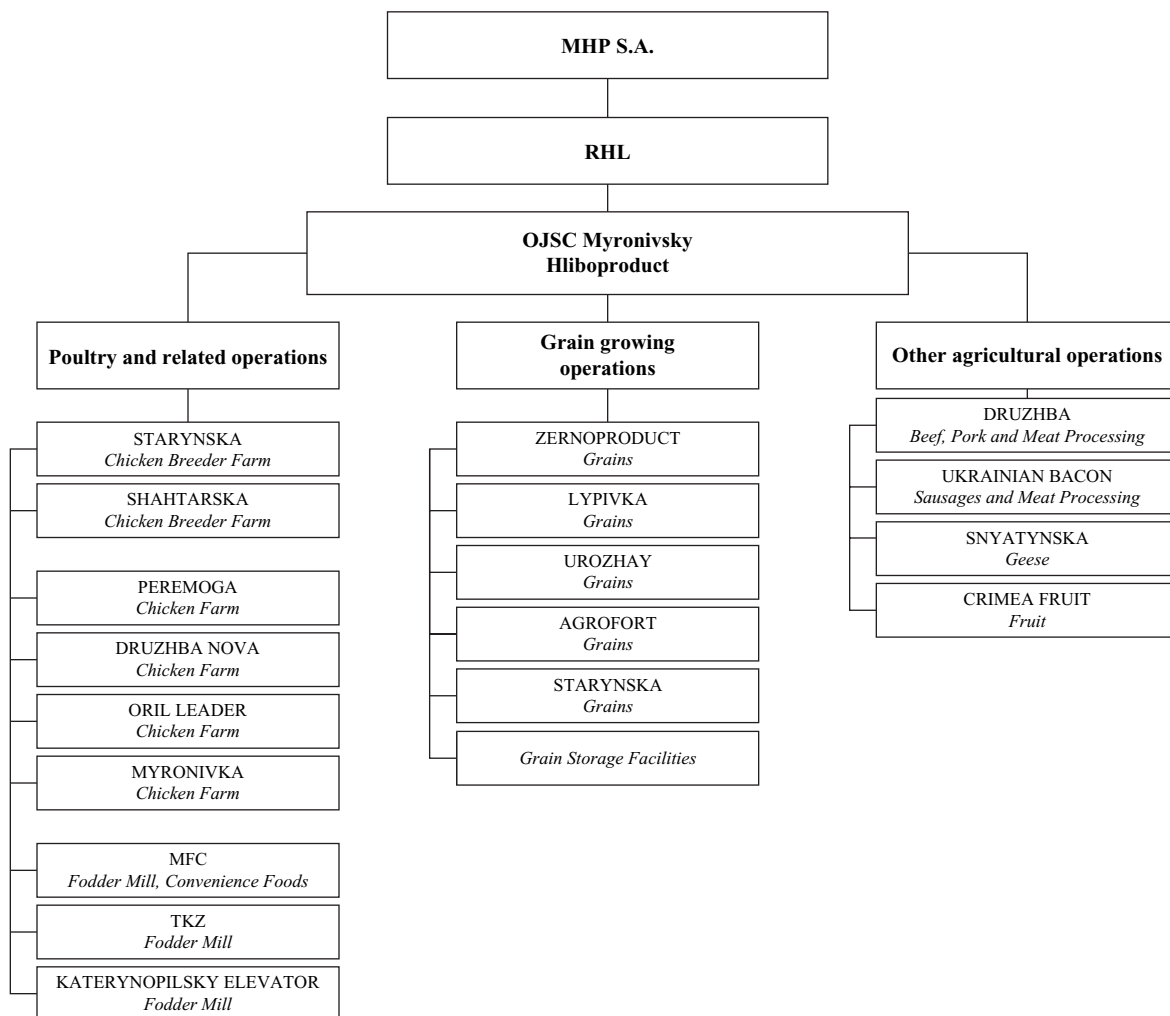
2009 In June, the second stage of the Myronivka chicken farm was completed and the farm became fully operational with an annual poultry production level of approximately 200,000 tonnes. Currently Myronivka chicken farm is the largest facility by production volume in Ukraine’s chicken meat sector and one of the largest poultry production facilities in Europe.

In September, as part of its vertical integration strategy and in addition to the existing sunflower processing facilities at MFC, MHP opened a new sunflower processing factory at its Katerynopilsky Elevator facility which will allow MHP to meet the increased demand for sunflower protein required for the production of fodder as a result of the completion of the Myronivka chicken farm. The factory produces, as a by-product, additional amounts of sunflower oil for export. The factory is currently operating at full capacity of 620 tonnes of sunflower seeds per day. This allowed MHP to increase its total sunflower processing capacity by 50%.

In April, the “Nasha Ryaba” brand underwent a successful restyling to maintain its appeal to its expanding customer base.

Organisational Structure

The Issuer, which is incorporated in Luxembourg, is the holding company of the MHP group of companies. MHP conducts its business in Ukraine through a number of direct and indirect subsidiaries. See “General Information”. The chart below shows MHP’s business (but not legal) structure:



Products

MHP's core business is the production of chicken meat and related products. In addition, MHP cultivates corn which is used in the production of fodder for its chicken operations, as well as wheat and rape for sales to third parties. MHP also produces sunflower oil, convenience food products, sausages, cooked meats, beef, goose meat and foie gras and fruit. MHP had gas trading activities in 2005 and 2006 but discontinued these activities in March 2007. The following tables provide information about MHP's sales volumes and revenues from the sales of its principal products with intersegment transactions eliminated for the purpose of the summary below:

	Year ended 31 December								
	2007			2008			2009		
	Amount		Percentage of MHP total revenues (in UAH terms)	Amount		Percentage of MHP total revenues (in UAH terms)	Amount		Percentage of MHP total revenues (in UAH terms)
	UAH	U.S.\$		UAH	U.S.\$		UAH	U.S.\$	
(unaudited)		%	(unaudited)		%	(unaudited)		%	
(In thousands, except percentages)									
<i>Poultry and related products</i>	1,943,567	384,865	81.1%	3,443,073	660,031	82.2%	4,505,233	577,143	81.1%
Chicken meat	1,433,366	283,835	59.8%	2,606,843	501,013	62.2%	3,461,607	443,654	62.3%
Sunflower oil	338,490	67,028	14.1%	578,950	109,974	13.8%	792,856	101,274	14.3%
Other poultry related products ⁽¹⁾	171,711	34,002	7.2%	257,280	49,044	6.2%	250,770	32,215	4.5%
<i>Grains</i>	194,376	38,490	8.1%	255,176	49,777	6.1%	360,273	45,752	6.5%
<i>Other agricultural products</i>	257,965	51,082	10.8%	490,956	93,102	11.7%	686,731	88,109	12.4%
Other meat and meat products ⁽²⁾	174,343	34,523	7.3%	348,278	66,122	8.3%	468,379	60,116	8.5%
Other agricultural products ⁽³⁾	83,622	16,559	3.5%	142,678	26,980	3.4%	218,352	27,993	3.9%
Total revenue	2,395,908	474,437	100%	4,189,205	802,910	100%	5,552,237	711,004	100%

	For the year ended 31 December		
	2007	2008	2009
	(tonnes)		
<i>Poultry and related products</i>			
Chicken meat (adjusted weight)	172,170	215,000	272,900
Sunflower oil	88,144	93,300	140,400
Convenience food products	3,808	11,800	10,500
<i>Grains (External Sales)</i>	229,390	202,800	309,200
<i>Other agricultural products</i>			
Other meat and meat products ⁽³⁾	13,561	16,000	24,600

Notes:

- (1) Other poultry related sales include sales of mixed fodder to third parties and convenience food products.
- (2) Sales of other meat include sales of beef, pork, sausages and cooked meats produced by Druzhba and Ukrainian Bacon.
- (3) Other agricultural sales include sales and re-sales of goose meat, foie gras and fruit.

Set forth below is a description of each of MHP's principal products.

Poultry and Related Products

Chicken Meat

MHP produces an extensive range of chicken products, comprising primarily chilled products and some frozen chicken products. MHP sells its chilled chicken products through its branded franchise network and also on a wholesale basis directly to retailers, including supermarkets, foodservice customers (hotel, restaurant and cafeteria operators, or "HoReCa") and industrial producers. Substantially all of MHP's chilled chicken products are sold under the "Nasha Ryaba" brand. MHP also produces a variety of convenience foods, mostly based on chicken, under the "Lehko!" and "Toropysky" brands and sells these through its branded franchise network and retailers. Sales of chicken meat accounted for approximately

60%, 62% and 62% of MHP's revenues in hryvnia terms from continuing operations in 2007, 2008 and 2009, respectively.

The following table sets forth production information for MHP's chicken operations in 2007, 2008 and 2009:

	2007	2008	2009
Chicken (processed weight), tonnes	190,775	245,710	308,554
Chicken (adjusted weight), tonnes ⁽¹⁾	172,650	226,350	285,000

Note:

(1) Represents production volume in line with industry standards, which adjusts for the price of by-products. The production volumes used throughout this Offering Memorandum (other than in this table) are adjusted unless stated otherwise.

Nasha Ryaba Products

“Nasha Ryaba” is MHP's flagship brand and the brand used for substantially all of MHP's packaged and unpackaged chilled chicken products. It was launched in 2002 and today is one of the most well-known brands in Ukraine according to GfK. “Nasha Ryaba” brand underwent a successful restyling and was relaunched in a modernised form to maintain its appeal to its expanding customer base. MHP's “Nasha Ryaba” products consist of the following:

- *Unpackaged products.* There are currently 16 different unpackaged Nasha Ryaba products, including whole chicken, chicken portions and a variety of ancillary products. These products are delivered to franchisees and other retailers, including supermarkets, and sold “loose” to customers under various types of point of sale branding and branded price stickers. This is the way in which most chicken meat is traditionally purchased in Ukraine.
- *Packaged products.* There are currently 58 different packaged Nasha Ryaba products, including chicken portions and ancillary products. The main advantage of packaged products is their extended shelf life, which is achieved with vacuum technology and the use of multi-layer barrier film. In 2008 MHP introduced a new line of gas-packaged chicken products to the market which have extended shelf life.
- *“Appetising” range products.* There are currently 25 lines within the Nasha Ryaba “appetising” range of packaged chicken products, each of which is raw and marinated in spices. These products are sold as whole chickens or portions under the “Nasha Ryaba Appetising” label. Sales of products in this range began in May 2004.

Frozen Unbranded Chicken

To manage mismatches in supply and demand, MHP freezes some of its chicken meat and sells it as frozen unbranded whole chickens and chicken portions primarily domestically to industrial producers that further process chicken or use chicken as an ingredient in their products. MHP exports its frozen chicken and convenience food products to the CIS, primarily Kazakhstan and Georgia, which together accounted for approximately 4% of its 2009 volumes of poultry and related products sold.

Sunflower Oil

MHP began producing sunflower oil as a by-product in 2004 following its decision to process sunflower seeds to produce vegetable protein for its fodder requirements. Following the launch of MHP's new sunflower processing factory at its Katerynopilsky Elevator facility in September 2009, MHP produced, as a by-product of its fodder production process, approximately 140,400 tonnes of high-quality unrefined edible sunflower oil in 2009 compared to 93,300 tonnes of sunflower oil in 2008. Sales of sunflower oil accounted for approximately 14% of MHP's revenues both in hryvnia and U.S. dollar terms in each of 2007, 2008 and 2009, respectively.

In 2009, all of MHP's sunflower oil was sold through international traders to export markets and generated revenues of UAH 792.9 million (U.S.\$101.3 million).

The table below sets forth the average market prices received by MHP for the sunflower oil it produced in 2007, 2008 and 2009:

Average price received by MHP for sunflower oil for years 2007, 2008 and 2009, per tonne

	2007	Increase/ Decrease in 2008 as compared to 2007	2008	Increase/ Decrease in 2009 as compared to 2008	2009
	(in thousands, except percentages)				
UAH ⁽¹⁾	3,840	61%	6,200	- 9.4%	5,620
U.S.\$ ⁽²⁾	761	55%	1,179	- 39%	721

Notes:

(1) Unaudited

(2) The U.S. dollar amounts presented in the table above for 2007, 2008 and 2009 have been translated solely for the convenience of the reader using the rate of UAH 5.04 to U.S.\$1.00, UAH 5.25 to U.S.\$1.00 and UAH 7.79 to U.S.\$1.00, respectively. No representation is made that the hryvnia or dollar amounts referred to herein could have been or could be converted into hryvnia or dollars, as the case may be, at these rates, or any other particular rate at all.

Convenience Food Products

MHP is the only Ukrainian industrial producer of chicken pre-cooked convenience food products. MHP began selling its convenience food products for the mass consumer market under the “Lehko!” brand, as well as unbranded convenience food products, in January 2006. MHP produces a wide assortment of products at affordable prices which are available in supermarkets and at “Nasha Ryaba” branded franchise outlets. The “Lehko!” range consists of a variety of convenience food products, from raw (marinated) to pre-cooked. There are currently 27 items in the “Lehko!” range including, among other items, chicken nuggets, “Chicken Kiev”, hamburgers and a variety of cutlets. Unbranded convenience food products include cutlets, nuggets and marinated and breaded chicken parts. In 2008, MHP expanded its line of chicken convenience food products with a new “Toropysky” range. In 2008, MHP entered into private label arrangements with Metro Cash & Carry in relation to chicken convenience food products, sausages and cooked meats produced by MHP and sold under the “Aro” and “Horeca Select” brands in Metro Cash & Carry supermarkets.

Grains

Since 2003, MHP has been producing a variety of grains, including corn and sunflower seeds for use in its chicken operations, and wheat and rape for sale to third parties. In 2009, MHP produced approximately 960,480 tonnes of grains. Sales of grains (after eliminating inter-segment sales) accounted for approximately 8.1%, 6.2% and 6.4% of MHP’s revenues in U.S. dollar terms from continuing operations in 2007, 2008 and 2009, respectively. MHP uses chicken droppings for part of its needs for fertiliser for grain production. MHP implements a crop rotation scheme in order to increase productivity and achieve long-term operational efficiency. Each field is cultivated with different crops in a fixed rotation plan, which ends with a fallow period to allow the soil to recover. The use of the crop rotation scheme ensures that the land is cropped without exhausting the soil and the use of chemical fertilisers and pesticides is minimised. As a result the hectareage under cultivation for the various grain types varies from year to year. MHP currently focuses on the following crops:

- *Corn*, which is a major feed grain grown throughout the world in temperate and warm climates. In the 2008/2009 agricultural year, MHP cultivated corn on approximately 48,540 hectares of land and harvested 432,603 tonnes with an average corn yield of 9.0 tonnes per hectare. Corn is seeded in spring and the harvest starts in the middle of September. In 2008, MHP became self-sufficient in corn which is used in the manufacture of fodder for its chicken and other meat products.
- *Winter wheat*, which produces a higher yield than spring crops due to its better established root system. In the 2008/2009 agricultural year, MHP cultivated wheat on approximately 35,592 hectares of land and harvested 208,002 tonnes with an average wheat yield of 5.8 tonnes per hectare. Winter wheat is seeded and starts to grow in the autumn, lies dormant during the winter and is usually harvested at the end of July.

- *Sunflowers*, which have good drought resistance characteristics and therefore have an important role in the overall crop mix. In the 2008/2009 agricultural year, MHP cultivated sunflowers on approximately 24,002 hectares of land and harvested 79,845 tonnes with an average sunflower yield of 3.3 tonnes per hectare. Sunflowers are seeded in the spring and the harvest starts in September.
- *Winter rape*, which is primarily used for producing vegetable oil and bio-diesel and has higher yielding characteristics than spring crops due to its better established root system. In the 2008/2009 agricultural year, MHP cultivated rape on approximately 14,423 hectares of land and harvested 38,618 tonnes with an average rape yield of 2.7 tonnes per hectare. Winter rape is seeded in the late summer and is usually harvested in early or mid-July, which enables MHP to sow winter wheat on the same fields for the next year thus improving the efficiency of crop rotation system.

MHP's grain harvest in 2008 and 2009 was significantly higher when compared to Ukraine's average and, Management believes, is on a par with the leading grain producers in Ukraine due to MHP's continuing development and improvement of its land.

	2008 MHP average (tonnes per hectare)	2008 Ukraine average ⁽¹⁾ (tonnes per hectare)	2009 MHP average (tonnes per hectare)	2009 Ukraine average ⁽¹⁾ (tonnes per hectare)
Corn	7.0	4.2	9.0	5.0
Wheat	6.3	3.8	5.8	3.1
Sunflower	2.8	1.5	3.3	1.5
Rapeseed	3.5	1.8	2.7	1.9

Source:

(1) SCSU

Other Agricultural Products

Sausages and Cooked Meat

From its Druzhba facility located in the Crimea and its Ukrainian Bacon facility located in the Donetsk region, MHP produces and sells to the national market various types of chicken, pork and beef sausages, including frankfurters, smoked and semi-smoked sausages, ham and other cooked meat products. MHP sells these products primarily on a wholesale basis to food service customers and supermarkets. Most of MHP's processed meat products are sold under the "STOV Druzhba Narodiv", "Baschinsky" and "Europroduct" brands. MHP has recently increased the percentage of chicken meat used in its sausages and shifted its portfolio towards lower priced products to maintain competitive pricing and appeal to a wider customer base given the economic downturn in Ukraine.

Beef Products

In 2004, MHP began selling premium beef products under the "Certified Angus" brand. There are currently 30 "Certified Angus" products, including raw steaks and meat for roasting and stewing. Beef is sold after it has been refrigerated, vacuum packed and matured. MHP's "Certified Angus" products are principally sold on a wholesale basis to food service customers and supermarkets.

Goose Meat and Foie Gras Products

MHP is the only industrial producer of goose meat and foie gras in Ukraine. Gourmet foie gras, both chilled and frozen, is sold under MHP's "Foie Gras" brand. MHP also produces high quality goose meat, which is sold unbranded through supermarkets and other food stores. MHP also buys and sells insignificant amounts of duck meat. See "Risk Factors—Risks relating to MHP—MHP's current working practices could be affected by new legislation on animal protection".

Fruit

At MHP's Crimea Fruit facility located in the Crimea region, MHP principally cultivates apples, as well as pears, peaches, grapes, strawberries, plums and sweet cherries.

Overview of Operations

Poultry and Related Operations

The table below sets forth certain information on MHP's principal facilities for its poultry and related operations.

Operating Company	Location	Year Joined MHP	Indicative Production Capacity ⁽¹⁾ (Annual)	2009 Output	Employees ⁽²⁾
Breeder Farms					
Starynska	Kyiv region	2001	208.3 million hatching eggs	135 million hatching eggs 2,614 tonnes processed meat ⁽³⁾	925
Shahtarska	Donetsk region	2003	48.6 million hatching eggs	46 million hatching eggs 990 tonnes processed meat ⁽³⁾	490
Chicken Farms					
Peremoga	Cherkasy region	1999	15 million chickens	14.9 million chickens 31,821 tonnes processed meat	673
Druzhba Nova	Crimea	2001	33 million chickens	33.7 million chickens 70,132 tonnes processed meat	1500
Oril Leader	Dnipropetrovsk region	2004	26.7 million chickens	26.3 million chickens 53,700 tonnes processed meat	1308
Myronivka	Cherkasy region	2007 ⁽⁴⁾	107.8 million chickens	80.6 million chickens 152,901 tonnes processed meat	2622
Convenience Food Production					
MMPP ⁽⁵⁾	Kyiv region	2006	45,000 tonnes	9,300 tonnes	304
Fodder Production					
MFC	Kyiv region	1998	440,000 tonnes	383,500 tonnes	701 ⁽⁶⁾
TKZ	Kherson region	2004	220,000 tonnes	96,435 tonnes	160
Katerynopilsky Elevator . .	Cherkasy region	2005 ⁽⁷⁾	600,000 tonnes	396,900 tonnes	477 ⁽⁸⁾
Sunflower Oil Production					
MFC	Kyiv region	2004	129,500 tonnes	122,140 tonnes	701 ⁽⁶⁾
Katerynopilsky Elevator . .	Cherkasy region	2005 ⁽⁹⁾	72,000 tonnes	19,936 tonnes	477 ⁽⁸⁾

Notes:

- (1) Unless indicated otherwise, production capacity is stated as of 31 March 2010. The actual output of MHP's chicken farms may exceed their production capacity due to variable survival rates and levels of production of hatching eggs. The stated production capacity of MHP chicken farms is based on MHP's 2009 survival rate of 95% and a hatch rate of 80%.
- (2) As of 31 December 2009.
- (3) Breeder meat production only.
- (4) This facility became fully operational in June 2009. See “—New Production Facilities for Chicken Operations” below.
- (5) In addition to chicken-based convenience food products, this facility also produces beef- and pork-based convenience food products.
- (6) As MHP's MFC facility there are 701 employees who collectively staff the MFC fodder production, sunflower oil productions and feed grains storage facilities. See “—Grain Cultivation and Storage” below.
- (7) MHP began producing fodder at its Katerynopilsky Elevator facility in May 2007.
- (8) At MHP's Katerynopilsky Elevator facility there are 477 employees who collectively staff the fodder production, sunflower oil production and feed grains storage facilities. See “—Grain Cultivation and Storage” below.
- (9) MHP began producing sunflower oil at its Katerynopilsky Elevator facility in September 2009.

Chicken Operations

MHP’s chicken production facilities include four principal chicken farms, two breeder farms (which include facilities for the production of hatching eggs), three fodder mills, and five storage facilities for sunflower seed and grain. In 2009, MHP’s chicken farms produced approximately 285,000 tonnes of chicken meat. MHP distributes its chicken products through its 11 distribution centres and three sales operations, which enables MHP to efficiently deliver fresh poultry products to its customers.

In line with its strategy of vertical integration, MHP is largely self-sufficient in terms of core raw materials. In 2009, MHP produced internally all of the fodder required for its chicken operations and since 2008 MHP has been self-sufficient in the corn it requires for fodder production. In addition, MHP produces a significant portion of its requirements for hatching eggs and is expected to be fully self-sufficient during the second half of 2010 pursuant to the expansion of the hatching facilities at the Starynska chicken farms in light of the increased production at the Myrnovika chicken farm. See also “—Raw Materials and Suppliers” below.

The most significant components of MHP’s cost of production of chicken meat (calculated per each kilogram of poultry) are grains, labour and utilities, which typically account for 35%, 17% and 17% of the cost of production, respectively.

The table below sets forth certain information regarding MHP’s principal equipment used in its chicken production operations.

	Number	Year Commissioned	Supplier
Hatchers	5	2002-2007	Pas Perform (Netherlands)
Feeding equipment	1,059	2001-2009	Big Dutchman (Germany)
Processing lines	5	2002-2009	MEYN Food Processing Technology (Netherlands)

Production of Chicken Meat

Chicken meat is produced at MHP’s facilities in four principal stages: production of hatching eggs, hatching, growout and processing.

Key Performance Indicators

Hatch rate is used to monitor the efficiency of hatcheries and the quality of hatching eggs. Hatch rate is calculated as the percentage of one-day old chicks (known as pullets) which proceed to growout stage from each lot of hatching eggs placed in an incubator. MHP calculates the hatch rate individually for each of its parent flocks. MHP’s 2009 average hatch rate was approximately 80%.

Survival rate is used to monitor overall efficiency of chicken growout facilities. Survival rate is calculated as the percentage of chickens at the start of the growout stage that proceed to the processing stage. MHP calculates the survival rate individually for each unit within its chicken farms. MHP’s 2009 average survival rate was 95%.

MHP closely monitors the conversion rates in its chicken growout operations. The conversion rate is the number of kilograms of fodder required to produce a one kilogram increase in live weight. Conversion rates are affected by a number of factors including the method of feeding and type of poultry breed but the most significant factor is the protein content per unit weight of fodder. The protein content of fodder is also closely monitored by MHP and is mainly a function of the different types of fodder available at appropriate prices. As such, depending on availability, the use of different proteins at different prices can be optimised depending on the expected market price for fodder components and market expectations as to chicken weight and price. As a result, MHP may decide that it is more economic to use a cheaper, lower protein fodder which gives a higher conversion rate than a more expensive higher protein fodder which gives a lower conversion rate. It is for this reason that Management believes it is not meaningful to make direct comparisons of conversion rates between different chicken producers. MHP’s 2009 average conversion rate was 1.9 for birds with an average weight of 2.3-2.5 kilograms.

Production of Hatching Eggs

MHP acquires all of its breeder flocks of Cobb 500 breeds as one-day old chicks from a breeding company in Germany that specialises in the production of breeder stock. On average, MHP receives one shipment of pullets per month. The pullets are transported to MHP's breeder farms in specialised vehicles operated by the suppliers of the breeder flocks. At MHP's breeder farms the pullets are grown to the point where they are capable of egg production (at approximately 20 weeks). Parent stocks are then transferred to the rearing units where they produce eggs for approximately 41 weeks with an average of 160 eggs per each parent stock, after which they are processed for meat used to make convenience food products. MHP produces a significant portion of its requirements for hatching eggs and is expected to be fully self-sufficient during the second half of 2010 pursuant to the expansion of the hatching facilities at the Starynska chicken farms in light of the increased production at the Myrnovika chicken farm.

MHP currently operates the following two breeder farms engaged in growing parent stock and producing hatching eggs for its chicken operations:

- *Starynska*. The Starynska breeder farm is located in the village of Myrne in the Kyiv region. The farm has 14 rearing units, six for young bird and eight for older bird which are laying eggs, with an aggregate capacity to simultaneously house 1.7 million heads of parent stock for hatching egg production. In 2009, the farm produced approximately 135 million hatching eggs as compared to 110 million hatching eggs in 2008. The increase in the output of hatching eggs was primarily due to the recent expansion of the farm to ensure sufficient supply of hatching eggs to the Myronivka chicken farm.
- *Shahtarska*. The Shahtarska breeder farm is located in the village of Sadove in the Donetsk region. The farm has nine rearing sites, three for young birds and six for laying hens, with an aggregate capacity to simultaneously house 510,000 heads of parent stock for hatching egg production. In 2009, the farm produced approximately 46 million hatching eggs as compared to 47 million hatching eggs in 2008.

Hatching

Eggs produced from MHP's breeder flocks are transported to MHP's hatcheries, which are located at its chicken farms. The key production processes at MHP's hatcheries are the following: sorting hatching eggs into incubation eggs and rejected eggs; placing the incubation eggs into the fully automated incubator which maintains the necessary temperature, humidity and air circulation regime; monitoring and maintaining the incubation process for 21 days, after which the chicks are hatched; vaccinating the newly hatched chicks; and transferring chicks to the poultry houses.

MHP's hatcheries have an aggregate weekly capacity (assuming an 80% hatch rate) of approximately 3.1 million chicks. MHP's hatcheries operate as closed facilities, and all eggs brought into MHP's hatcheries have certificates from the state veterinary authorities confirming their quality and safety.

Growout

One-day old chicks from MHP's hatcheries are transferred to sterilised barns within the same chicken farm for growout. MHP uses computer systems to create optimal conditions for the growth of its chickens, including with respect to light, temperature and air circulation, as well as the supply of food and water at regular intervals. To ensure stable growth, chickens are fed using a carefully balanced diet which includes all necessary nutritious ingredients such as fat, protein, vitamins and minerals. Other than standard vaccinations, MHP does not use chemicals or steroids in its chicken production process. The composition of fodder is adjusted every ten days and is tailored to the age of the chickens, which enables the chickens to grow optimally and also improves the taste of the meat. The growout period typically lasts from six to seven weeks, by the end of which chickens reach a processing weight of approximately 2.3 to 2.5 kilograms.

Processing

Once the chickens reach processing weight, they are transferred to MHP's automated processing facilities located within the same chicken farm. Chickens are processed by electrical stunning. They are then bled by puncturing major blood vessels, plucked and gutted. The carcasses are then moved for cooling to a temperature of 4-6°C. The cooled chickens are packaged either as a whole bird or are further cut into portions and packaged. Prior to being delivered to customers, packaged chicken products are kept in

cooling containers at a temperature of 2°C. To address mismatches in supply and demand. MHP also has a capability to freeze approximately 26% of its daily output of chicken meat.

MHP currently operates the following four chicken farms for growout of chickens and processing of chicken meat. Each of MHP's chicken farms consists of several independent units, each of which, in turn, consists of six to 16 individual chicken barns. MHP's four chicken farms currently have an aggregate processing capacity of approximately 3.5 million chickens per week.

- *Myronivka*. The Myronivka chicken farm is located near Kaniv in the Cherkasy region and, Management believes that, it is currently the largest facility by production volume in Ukraine's chicken meat sector and one of the largest poultry production facilities in Europe. Myronivka is fully automated and employs new imported equipment and modern energy saving technology. This farm consists of chicken growing facilities, a hatchery (with a capacity of 147.5 million eggs per year) and an automated processing plant. Myronivka accounted for approximately 49.5% of MHP's output of chicken meat in processed weight by volume in 2009 and Management expects this to increase to 55% in 2010 when Myronivka is fully operational for a whole year.
- *Druzhba Nova*. The Druzhba Nova chicken farm is located in the village of Petrivka in the Crimea and includes chicken growing facilities, two hatcheries (with an aggregate capacity of 44.1 million eggs per year) and an automated processing plant. Druzhba Nova accounted for approximately 22.7% of MHP's output of chicken meat in processed weight by volume in 2009.
- *Oril Leader*. The Oril Leader chicken farm is located in village of Yelizavetivka, Dnipropetrovsk region, and consists of chicken growing facilities, a hatchery (with a capacity of 35.6 million eggs per year) and an automated processing plant. Oril Leader accounted for approximately 17.4% of MHP's output of chicken meat in processed weight by volume in 2009.
- *Peremoga*. The Peremoga chicken farm is located near Cherkasy and consists of chicken growing facilities, a hatchery (with a capacity of 20.4 million eggs per year) and an automated processing plant. Peremoga accounted for approximately 10.4% of MHP's output of chicken meat of processed weight by volume in 2009.

Fodder Production

MHP produces its own mixed fodder at its three fodder mills using agricultural commodities such as corn, wheat, sunflower seeds and soybeans. The key operational processes at MHP's fodder mills include purchasing fodder ingredients, weighing and conducting laboratory analysis of fodder ingredients, manufacturing fodder using a steam treatment technology which ensures the quality and safety of fodder, concluding laboratory analysis of fodder and delivering the fodder to MHP's breeder and chicken farms. MHP produces a wide variety of fodder types with various vitamin and protein contents meeting the age requirements and covering the needs of chickens at the breeder farms and chicken farms. All fodder produced by MHP is granulated and all ingredients are thoroughly mixed so that the necessary components are dispersed throughout the fodder. A portion of MHP's granulated fodder is crushed so that it can be fed to younger chickens. To ensure freshness and quality, after fodder is produced, it is delivered by MHP's own trucks to its chicken and breeder farms.

The fodder conversion rate at a chicken farm is largely dependent on the quality and composition of fodder. Prior to 2004, MHP used only imported soy protein in its fodder. In 2004, MHP began substituting some soy protein with sunflower protein, produced at its own sunflower processing factory. MHP uses a particular technology that increases the amount of sunflower protein it produces from sunflower seeds, which MHP purchases from Ukrainian suppliers and also meets 15% of its needs for sunflower seeds from internal production. The use of sunflower protein as a substitute for imported soy protein has reduced MHP's fodder production costs. MHP also uses insignificant amounts of animal protein of non-poultry origin in its fodder. Since 2008 MHP has been self-sufficient in corn, which it uses for fodder production.

MHP currently operates the following three fodder mills to support its chicken operations, which have an aggregate annual production capacity of approximately 1.26 million tonnes of mixed fodder.

- *MFC*. MFC is a multi-product production complex that includes a fodder mill, a protein mill, five grain elevators and a cereals mill. MFC's facilities are located approximately 100 kilometres from Kyiv. MFC's fodder mill includes two production lines for mixed fodder, each with an annual production capacity of 220,000 tonnes. One of the production lines was supplied by Buhler AG (Switzerland) in 2001, and one was supplied by Sprout Matador (Denmark) in 2004. In 2009, MFC

produced 383,500 tonnes of fodder and 122,140 tonnes of sunflower oil. The protein mill provides sunflower protein to be used in mixed fodder. MFC has a production capacity of 560 tonnes of sunflower cake and 440 tonnes of sunflower oil per day. The cereals mill is used to process peas and oats.

- *TKZ*. The TKZ mixed fodder mill is located in the southern part of Ukraine and supplies MHP's Druzhba Nova chicken farm with mixed fodder. This mill has one Sprout Matador production line for mixed fodder installed in 2005, with an annual production capacity of 220,000 tonnes. In 2009, TKZ produced 96,435 tonnes of fodder.
- *Katerynopilsky Elevator*. The Katerynopilsky Elevator facility is located in the Cherkasy region and principally supplies mixed fodder to the Myronivka chicken farm. This facility includes two Sprout Matador fodder production lines installed in 2007, with an aggregate annual capacity of 600,000 tonnes of fodder and a sunflower processing factory, which opened in September 2009, with an average production capacity of 242 tonnes of sunflower cake and 215 tonnes of sunflower oil per day. In 2009, Katerynopilsky Elevator produced 396,900 tonnes of fodder and 19,936 tonnes of sunflower oil. The sunflower processing factory is expected to help MHP produce the additional amount of sunflower protein required for the production of fodder to be used at the recently expanded Myronivka chicken farm. The factory produces as a by-product sunflower oil for export sale. The new factory is equipped with new modern machinery manufactured by Europe's leading companies, such as Schmidt Seeger, Geelen Counterflow, Andritz Sprout and Alfa Laval, which is expected to reduce the cost of production and maximise the quality of the output. The factory is currently operating at full capacity and has a full production capacity of 620 tonnes of sunflower seeds per day. As a result of this new facility, MHP has increased its total sunflower processing capacity by 50% to 550,000 tonnes per annum.

New Production Facilities for Chicken Operations

MHP is pursuing a strategy of expansion. Now that the Myronivka chicken farm is fully operational and in order to meet the expected growth in demand for chicken meat in Ukraine, MHP expects to increase its total chicken output from approximately 285,000 tonnes in adjusted weight in 2009 by about 16% to 330,000 tonnes in adjusted weight per year in 2010 as the Myronivka chicken farm operates at full capacity for a whole year following the construction of the second phase in June 2009.

MHP continues to seek expansion opportunities and is considering the construction of another chicken farm in the Vinnytsya region. If MHP decides to proceed, construction of the first two phases is expected to commence in late 2010 with the first phase beginning production in 2013 and both phases becoming fully operational in 2015. The third and fourth construction phases are optional and the decision to continue the construction would depend on demand and pricing. If all four independent phases are completed, this new project is expected to be approximately twice as big as the Myronivka chicken farm. Construction would be completed in four independent phases, with each phase accounting for an annual production capacity of 100,000 tonnes of chicken meat. Management believes that, if MHP decides to proceed with all four phases of this project, it would take approximately seven to eight years to complete, which will provide MHP with additional opportunities both in the Ukrainian and EU markets in the future. Management believes that upon completion of the first two construction phases, the Vinnytsya chicken farm would have the potential to become the largest chicken farm in Ukraine. Management estimates that, upon completion of the four construction phases, the annual production capacity of the Vinnytsya chicken farm would be 400,000 tonnes of chicken meat, double the current production capacity of the Myronivka chicken farm and a 120% increase in MHP's total chicken production as compared to 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures".

If MHP decides to proceed with the construction of the Vinnytsya chicken farm, MHP plans to build additional facilities for the production of hatching eggs and hatcheries as part of the Vinnytsya project in order to ensure a sufficient supply of pullets to the Vinnytsya chicken farm, and in line with MHP's strategy of vertical integration. MHP also intends to expand its grain growing capacity so as to maintain its self-sufficiency in corn by acquiring lease rights to additional land in Ukraine.

Production of Sunflower Oil

Sunflower oil is a by-product of the sunflower protein production operations at MHP's protein mill at MFC and Katerynopilsky Elevator. The protein mills at MFC and Katerynopilsky Elevator have an output

capacity of 560 tonnes and 242 tonnes of sunflower cake and 440 tonnes and 215 tonnes of sunflower oil per day, respectively. All sunflower cake is used internally as protein added to mixed fodder, and the sunflower oil is sold to external customers. MHP uses a particular technology that increases the amount of sunflower protein it produces from sunflower seeds. MHP purchases sunflower seeds from Ukrainian suppliers and also meets approximately 15% of its needs for sunflower seeds from internal production by the grain growing segment. The use of sunflower protein as a substitute for imported soy protein has reduced MHP's fodder production costs. See “—Products—Poultry and Related Products—Sunflower Oil”.

In addition, at its boiler house located at MFC, MHP burns sunflower husks to make steam which is used in the production of mixed fodder. This reduces MFC's requirements for natural gas, thereby reducing MHP's overall production costs. MHP also uses sunflower husks for bedding at its chicken production facilities, which enables MHP to reduce its production costs and to improve the biosecurity of its operations.

Convenience Food Production

MHP is the leading producer of innovative convenience food in Ukraine. MHP produces its convenience food products at its MMPP facility, which began operations in January 2006. This facility is one of the largest and most technologically advanced for the production of convenience food products in Ukraine and is able to produce all types of convenience food that MHP sells. The facility is fully-automated and uses equipment sourced from CFS (The Netherlands). In 2009, MMPP produced in aggregate 9,300 tonnes of convenience food products. See “Management's Discussion and Analysis of Financial Condition and Results of Operations—Year Ended 31 December 2007 Compared to the Year Ended 31 December 2008—Loss on Impairment of Property, Plant and Equipment”.

MHP's convenience food products range from raw (marinated) to pre-cooked and are prepared in various cuts and selected and shaped portions. Meat may be further cooked and/or minced. Seasonings and secondary raw materials are applied to each product type or line, according to set recipes, in order to ensure consistency, colour, texture and flavour. Final products are produced by shaping, casing, cooking and blast-freezing in special machines, which maintains the product's flavour better than slow freezing. Products undergo quality controls and are distributed after having been packaged and labelled.

Grain Cultivation and Storage

MHP's margins from chicken production depend to a significant extent on the availability of, and prices for, feed grains for the production of mixed fodder. Feed grains used by MHP include corn, wheat, sunflower seeds and soybeans. Feed grains, like all agricultural commodities, are subject to volatile price changes caused by weather, size of harvest, global demand, transportation and storage costs and the agricultural policies of the Ukrainian and of foreign governments. To reduce its exposure to price changes in the feed grains market, MHP grows a certain amount of its own feed grains, primarily corn. Since 2008, MHP has been self-sufficient in corn and currently meets 15% of its needs for sunflower seeds from internal production. MHP sources the remainder of its requirements in grains and sunflower seeds from domestic suppliers. Although Ukrainian grain prices generally follow world grain prices, the cost of domestic grain to MHP tends to be lower due to lower transportation costs. See “—Raw Materials and Suppliers”. MHP also sells grain, primarily wheat and rape, with two thirds sold directly to third parties abroad in U.S. dollars and the balance sold to domestic traders in Ukraine in hryvnia by reference to U.S. dollar prices. MHP's grain sales are an additional source of foreign income which amounted to U.S.\$30 millions in 2009.

The tables below set forth certain information on MHP's principal facilities for its grain cultivation and storage operations.

<u>Operating Company</u>	<u>Location</u>	<u>Year Joined MHP</u>	<u>Area Under Cultivation⁽¹⁾ (hectares)</u>	<u>2009 Output (tonnes)</u>	<u>Employees⁽¹⁾</u>
Grain Production					
Zernoproduct	Vinnitsya region	2005	73,673 ⁽¹⁾	425,864	2,439
Agrofort	Kyiv region	2006	10,957 ⁽¹⁾	86,939	253
Lypivka	Vinnitsya region	2006	8,369 ⁽¹⁾	32,202	75
Urozhay	Cherkasy region	2006	49,197 ⁽¹⁾	390,094	1,114
Starynska	Kyiv region	2001	5,117 ⁽¹⁾	25,381	925
Total			147,313	960,480	4,806

<u>Operating Company</u>	<u>Location</u>	<u>Year Joined MHP</u>	<u>Storage Capacity (cubic metres)</u>	<u>Employees</u>
Grain Storage				
MFC	Kyiv region	1998	239,000	701 ⁽²⁾
Katerynopilsky Elevator	Cherkasy region	2005	283,000	477 ⁽³⁾
Oril Leader	Dnipropetrovsk region	2006	80,000	1,308 ⁽⁴⁾
	Poltava region	2007	80,000	—
Dobropilsky	Donetsk region	2008	53,000	225
Total			735,000	

Notes:

- (1) As at 31 December 2009.
- (2) At MHP's MFC facility there are 701 employees who collectively staff the MFC fodder production and feed grains storage facilities. See "Chicken Operations" above.
- (3) At MHP's Katerynopilsky Elevator facility there are 477 employees who collectively staff the fodder production and feed grains storage facilities. See "Chicken Operations" above.
- (4) At MHP's Oril Leader facilities there are 1,308 employees who collectively staff the grains storage facilities and the chicken farm.

In aggregate, MHP leases approximately 180,000 hectares of land for its operations, of which approximately 150,000 hectares are used in the grain growing segment for grain production, approximately 27,000 hectares are used in the other agricultural segment primarily for fruit orchards, as pasture for cattle and pigs and grow grain for fodder for cattle and pigs, and approximately 3,000 hectares are used by the poultry and related operations segment. MHP makes lease payments on average of approximately UAH 400 (U.S.\$50) per hectare above the regulated average minimum, which Management believes enabled MHP to create its extensive land portfolio and protects MHP from potential upward pressure on its lease costs. MHP's land portfolio was developed, and its farms are managed, by an experienced farm management team.

The following table sets forth information on MHP's grain operations for 2008 and 2009:

	2008		2009	
	<u>Production, tonnes</u>	<u>Cropped hectares⁽¹⁾</u>	<u>Production, tonnes</u>	<u>Cropped hectares⁽¹⁾</u>
Corn	321,900	46,656	432,603	48,540
Wheat	219,669	36,509	208,002	35,592
Sunflower	36,528	13,384	79,845	24,002
Rapeseed	49,644	14,510	38,618	14,423
Other ⁽²⁾	185,046	17,709	201,412	24,757
Total:	818,787	128,768	960,480	147,313

Notes:

- (1) Actual hectareage under crop and excluding land left fallow as part of crop rotation.
- (2) Includes soybean, barley and sugar beet.

MHP stores feed grains at the Katerynopilsky Elevator facility, MFC, Oril Leader and the Dobropilsky facility in the Donetsk region, which currently have storage capacities of up to 283,000, 239,000, 160,000 and 53,000 cubic metres, respectively.

In its grain operations MHP uses modern equipment and machinery sourced from the leading domestic and international suppliers. MHP purchases combines from CLAAS (Germany) and CASE (USA), tractors from Minsk Tractor Plant (Belarus), AGCO (USA), Caterpillar (USA) and MERLO (Italy), planters and seeders from Borgault (Canada) and OJSC “Red Star” (Ukraine), tillage machinery from Gregory Besson (France) and other types of equipment from Amazone (Germany) and John Deere (USA).

For the description of MHP’s rights to its land plots, see “—Facilities and Properties—Land Plots” below. See also “—Regulatory Compliance” below.

Other Agricultural Operations

MHP’s other agricultural operations comprise principally the production of sausages, cooked meats, beef, goose meat, foie gras and fruit. In 2009, MHP’s other agricultural operations generated revenue of UAH 686.7 million (U.S.\$88.1 million), or 12.4% of MHP’s total revenue from continuing operations in both hryvnia and U.S dollar terms. The table below sets forth certain information on MHP’s principal facilities for its non-chicken operations.

<u>Facility</u>	<u>Function</u>	<u>Year Joined MHP</u>	<u>Annual Production Capacity⁽¹⁾</u>	<u>2009 Output</u>	<u>Employees⁽²⁾</u>
Snyatynska	Production of goose meat and foie gras	2005	1,116,000 tonnes/ 167,505 heads (goose meat)	822,800 tonnes ⁽³⁾ / 129,070 heads (goose meat)	479
Druzhba	Production of beef meat and sausage	2006	20,000 heads (beef); 34,000 heads (pork)/ 15,700 tonnes (sausages and cooked meat)	8,817 tonnes ⁽³⁾ / 19,600 heads (beef); 3,364 tonnes/ 31,920 heads (pork)/ 13,535 tonnes (sausages and cooked meat)	1500
Ukrainian Bacon . .	Production of sausages and cooked meat	2008	40,000 tonnes	11,315 tonnes (sausages and cooked meat)	883
Crimea Fruit	Fruit	2006	—	2,400 hectares	1,264

Notes:

(1) As at March 2010.

(2) As at March 2010.

(3) In live weight.

The following table sets forth information on MHP's principal non-chicken operations for 2008 and 2009.

	2008	2009
Sausages and cooked meats, output (tonnes)	16,000	24,800
Beef, output (heads) ⁽¹⁾	24,800	19,600
Pork, output (heads) ⁽¹⁾	33,660	31,920
Geese, output (heads)	211,470	129,070
Fruit (planted area, hectares)	2,110	2,400

Note:

(1) MHP uses all of its pork output and most of its beef output for the production of sausages and cooked meats.

Production of Sausages, Beef, Goose Meat and Foie Gras

MHP produces sausages, cooked meat and beef at its Druzhba facility located in the Crimea and its Ukrainian Bacon facility located in the Donetsk region.

Druzhba is an integrated production facility for meat products, milk and fodder, and has been fully operational since the end of 2006. This facility has a cattle rearing complex with capacity of 20,000 cattle. The facility also has a pig breeding complex with an annual production capacity of over 34,000 pigs. The facility includes a pedigree farm for pig breeding. Druzhba also operates a modern, recently built meat-processing and sausage production factory. This facility is fully automated and uses equipment sourced from Norbert Shaller GmbH (Austria). This factory became fully operational in February 2007 and currently has a production capacity of up to 37 tonnes of sausages per day. It processes cattle and pigs reared at the Druzhba facility. In 2009, MHP produced 13,535 tonnes of sausages and cooked meat at its Druzhba facility and currently sells its sausages and cooked meats to customers throughout Ukraine. Druzhba leases 15,480 hectares of land, most of which is irrigated. This land is used by MHP to farm pigs and cattle and to grow various fodder crops, including corn, wheat and barley.

In July 2008 MHP acquired an 80% interest in the Ukrainian Bacon meat-processing facility, which enabled MHP to meet the increased demand for sausages and cooked meat. During 2008, production of sausages and cooked meat increased by 113% to 16,000 tonnes, more than double the amount produced in 2007, and in 2009 production increased by 55% to 24,800 tonnes in comparison to the results in 2008.

Ukrainian Bacon is an integrated production facility for meat products. Ukrainian Bacon operates a modern, recently built meat-processing and sausage production factory. This facility is fully automated and uses equipment sourced from Huntman (Germany), Alpina (Switzerland), CFS (Holland) and others. This factory currently produces up to 43 tonnes of sausages and cooked meats per day. In 2009, MHP produced 11,315 tonnes of sausages and cooked meat at its Ukrainian Bacon facility, which currently operates at 35% of its full capacity. MHP intends to increase the utilisation rate of this facility in the future up to its full capacity.

Based on research conducted by GfK, MHP is the leader in a highly fragmented meat-processing market in Ukraine, accounting for approximately 10% of all sausages and cooked meats produced in Ukraine in 2009.

Beef and pork convenience food products are produced at MHP's MMPP facility. See “—Poultry and Related Operations—Convenience Food Production” above.

MHP produces goose meat and gourmet foie gras at its Snyatynska facility located in the town of Snyatyn in the Ivano-Frankivsk region. The farm comprises parent stock rearing and growing facilities, a hatchery, 53 geese houses and a processing plant. At the farm there are currently approximately 9,106 parent stock geese of the Babolna Grey Landes breed, which were initially imported from Hungary. This breed has high hatching capacity and feeds well, enabling the production of goose liver that is high in fat. Test production of goose meat and foie gras began at the farm in the second half of 2005. In 2009, the farm produced approximately 420,026 tonnes of goose meat and approximately 89,168 tonnes of foie gras. MHP is currently considering export options for its goose meat and foie gras. See “Management's Discussion and Analysis of Financial Condition and Results of Operations—Year Ended 31 December 2009 Compared to the Year Ended 31 December 2008—Loss on Impairment of Property, Plant and Equipment”.

Production of Fruit

At its Crimea Fruit facility located in the Crimea, where the climate is similar to that of Northern Italy, MHP principally cultivates apples, as well as pears, peaches, grapes, strawberries, plums and sweet cherries. Approximately 2,400 hectares of land at Crimea Fruit facility are currently planted with orchards, with apple trees accounting for approximately 50% of the planted area. The majority of the fruit-producing trees was planted in 2007 and, depending on the type of the fruit, there is usually a five to seven year gap between planting of the trees and such trees starting producing fruit with a maximum yield.

Biosecurity

MHP employs a broad range of biosecurity measures in order to minimise the risk of disease infection and transmission at its chicken and other meat production facilities. These measures include keeping all chickens at indoor production facilities, strictly controlling access to facilities, disinfecting employees and vehicles entering production areas and constantly monitoring the health of the livestock. MHP employs a total of approximately 200 veterinary specialists at its facilities.

MHP also follows the practice of multi-site farming instead of maintaining large barns at its breeder farms and chicken and goose rearing facilities. Multi-site farming involves units within each facility being located at least one kilometre away from each other to prevent the spread of disease between units. The individual barns within a unit are located approximately 50 metres away from each other. In addition, birds hatched at the same time are raised together as a group and kept in separate barns from birds of other ages in order to facilitate the thorough cleaning of barns when birds reach slaughter age prior to the introduction of a new group of birds.

MHP thoroughly disinfects each barn at its chicken and goose farms before it introduces a new group of birds into the barn, including washing the barn with hot water, cleaning feeding systems, disinfecting the barn with a hot caustic sodium solution, repainting floors and ceilings and conducting a five-day treatment of the barn with formalin vapour. All bedding at MHP's chicken farms is produced internally from the husks produced as a by-product of MHP's fodder production process. The husks are thermally treated and disinfected before they are brought into the barn, and no straw or hay is added.

Each of MHP's chicken and goose production facilities is located at least 1.5 kilometres away from the nearest residential area. All doors, windows and vents at MHP's facilities are netted to ensure that MHP's chickens and geese do not come into contact with wild birds and animals. Each production facility is surrounded by a disinfection barrier comprised of ditches filled with formalin, which neutralises bacteria on automobile tyres. The entrance passageways to MHP's facilities are treated with caustic sodium once every 10 days in order to neutralise bacteria on visitors' footwear. Each of MHP's chicken and goose production facilities has restricted access and has a "shower in/shower out" policy for employees. If it is necessary for a manager or employee to enter a unit other than his or her designated unit, a mandatory 72-hour waiting period is required. Employees at MHP's chicken and goose breeding and production facilities are prohibited from keeping birds at their households. All employees undergo mandatory training prior to beginning their employment and receive regular updates and training on biosecurity measures. MHP's employees' knowledge of biosecurity procedures is monitored on an annual basis.

MHP has developed advanced disease control measures for its facilities. If any infection or disease were to be found at MHP's facilities, immediate measures would be implemented to control its impact and to prevent its spread to other facilities. Such measures would include, in the case of bird flu, culling all birds within the infected unit and imposing quarantine measures in such unit for a period of up to 21 days. In the case of Newcastle Disease, birds within the infected barn would be culled and the birds within the respective unit would be re-vaccinated. Quarantine measures would be imposed in the affected unit for a period of up to 21 days. In the case of discovery of any other type of disease, MHP would typically vaccinate or re-vaccinate all birds within the affected unit.

In addition, MHP attempts to control the risk of disease through the careful selection of breeding stock that it considers to be more resistant to disease. MHP also vaccinates all of its chickens at hatching against Newcastle Disease and bronchitis.

MHP has also implemented strict biosecurity measures at its fodder production facilities, including a restricted access policy, installation of disinfection barriers and regular monitoring of fodder purity by on-site laboratories.

MHP applies strict biosecurity measures to its waste disposal procedures. Waste from hatching (including egg shells and underdeveloped chickens) is buried in a special pit, certified in accordance with Ukrainian legislation. Waste from MHP's chicken processing facilities (such as bones) is boiled to produce bone flour, which MHP sells as a source of animal protein. Dead chickens from MHP's rearing units are sent for waste processing to state-operated sanitary plants.

In recent years, MHP has introduced additional biosecurity measures at its facilities, including increasing the amount and strength of its disinfecting washes and solutions, culling wild birds in the immediate vicinity of its poultry facilities and vaccinating all of its employees who have direct contact with chickens. Moreover, prior to processing, each batch of chickens entering the slaughter floor is examined for symptoms of any infection, including bird flu, and analysed at several stages to ensure the absence of bird flu evidence. MHP monitors wild birds in the vicinity of its poultry farms on a weekly basis to enable early identification of any potential sign of bird flu.

MHP maintains a Central Scientific Research Laboratory that monitors the health of MHP's chickens, and each of MHP's facilities has its own veterinary laboratory. MHP also uses the services of independent veterinary laboratories approved by the World Organisation for Animal Health and the State Committee of Veterinary Medicine of Ukraine. MHP constantly monitors innovations and new developments in the biosecurity field and regularly improves its biosecurity system to implement the newest and most effective measures and practices. MHP's biosecurity measures are regularly reviewed and updated by MHP's Chief Veterinarian to ensure they are providing adequate protection against disease threats, including bird flu and Newcastle Disease.

Management believes that its biosecurity systems are in compliance with the regulations that are applicable to its operations. See also "Certain Regulatory Matters—Biosecurity".

Quality Control

MHP implements a wide range of measures which Management believes enables it to produce high quality products. MHP operates an efficient traceability system which allows it to link each batch of chicken and other products produced at its facilities to its facility of origin, enabling MHP to track and monitor all stages of production process, from the production of fodder through hatching, breeding, processing and distribution. In addition, MHP regularly monitors its points of sale to ensure compliance with MHP's hygiene and quality standards. See "—Sales and Distribution" below.

MHP's chicken farms are currently preparing for certification of their hygiene procedures under Hazard Analysis and Critical Control Point ("HACCP") methodology, which is an internationally recognised methodology for increasing the safety of food. Druzhba Nova, MHP's second largest chicken farm, was certified under HACCP in 2006 and under ISO 22000 in 2009, and MHP expects to obtain such certification for Oril Leader and Peremoga in 2010.

To control the quality of its products, MHP has implemented a Quality Management System ("QMS") and a Food Safety Management System ("FSMS") at its MMPP and Snyatynska facilities. MMPP and Snyatynska were tested under international standards ISO 9001 and ISO 22000 and were subsequently certified in 2008 and 2010, respectively. MHP expects to certify its QMSs and FSMSs at Myronivka, Katerynopilsky Elevator and MFC in 2010 and at Druzhba and Ukrainian Bacon in 2011. In 2009, MHP also received certification under the national standard for food safety for MFC and Katerynopilsky Elevator in respect of its sunflower oil processing facilities.

Sales and Distribution

MHP's products are sold nationally, although its sales are particularly strong in the eastern and southern regions of Ukraine. MHP distributes its products through its franchisee network and by way of direct sales to supermarkets and other retailers, foodservice businesses and industrial producers, and through other distribution channels. MHP does not sell its products directly to end consumers.

MHP distributes its chicken products itself by way of its own distribution network, which Management believes is a significant competitive strength. MHP's Marketing and Sales Department, which is headquartered in Kyiv, is responsible for the overall management of MHP's sales and distribution network. MHP currently employs approximately 2260 people in its sales and distribution network.

MHP operates 11 distribution centres and three sales operations, each located in a major Ukrainian city and plans to further expand its geographical coverage in the medium to long term, particularly in the

Crimea region and Kiev. Some of MHP's distribution centres are leased, while others are owned. MHP plans to gradually obtain ownership rights to all of its distribution centres. Each distribution centre has its own storage facilities and fleet of trucks which enables MHP to deliver its products to franchisee outlets, supermarkets and other retailers in an efficient and timely manner. MHP has more than 430 trucks, each equipped with modern refrigeration equipment, sourced from leading producers, such as Mercedes and Scania. MHP's logistics and distribution costs significantly increased in the last years in order to support increased production and sales volumes following the completion of the Myronivka chicken farm.

The table below shows the principal sales channels for MHP's chicken products as a percentage of total revenue from sales of chicken meat in 2007, 2008 and 2009.

<u>Sales Channel</u>	<u>Year ended 31 December</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
		(%)	
Franchisees	60	45	40
Supermarkets and other retailers	30	40	40
Foodservice, industrial and other businesses	10	15	20
Total	100	100	100

All of MHP's customers (including franchisees) purchase "Nasha Ryaba" products from MHP on the basis of supply agreements, typically entered into for the term of up to one year. The volume for products are typically agreed with each customer on a monthly basis, but may be adjusted on the basis of daily orders placed by the customers. See also "—Pricing". In 2009, MHP sold approximately 20% of its products to its ten largest customers, including major supermarket chains.

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. MHP intends to continue to maintain such balance.

Franchise Sales

MHP's products are sold to end consumers through its branded franchise points of sale. In 2009, approximately 40% of MHP's chilled chicken meat sales under the "Nasha Ryaba" brand were made through MHP's branded franchise network. As at 31 December 2009, there were approximately 2,330 branded franchise points of sale in MHP's distribution network, as compared to approximately 2,011 and 2,120 as at 31 December 2007 and 2008, respectively. Franchise sales (as compared with sales to supermarkets and other retailers) give MHP greater control over the distribution of its products and enable MHP to maintain uniform product quality, to generate higher margins, to control exposure to any concentration of customers and to maintain flexibility in marketing, pricing and managing inventory. Another key advantage of MHP's franchisee network is that it provides MHP with a strong cash conversion cycle given the short, cash-based payment period franchisees are required to observe.

The table below shows the geographical distribution of MHP's franchise network as of 31 December 2009.

<u>Location of Franchise Outlets</u>	<u>Number of Branded Retail Outlets</u>	<u>Percentage of Total</u>
Kyiv	156	6.68
Crimea	382	16.39
Dnipropetrovsk	318	13.64
Cherkasy	185	7.94
Donetsk	298	12.78
Odessa	206	8.84
Zaporizhya	95	4.08
Kharkiv	223	9.57
Lviv	103	4.42
Ivano-Frankovsk	125	5.36
Ternopol	130	5.58
Luhansk	110	4.72
Total	2,331	100

MHP selects franchisees from among businesses and individuals operating in the relevant geographical area which, in the view of MHP's management, have a solid reputation, sufficient financial resources, good relations with local authorities and the willingness to contribute to MHP's expansion as its franchisee. MHP interviews franchisee candidates and seeks information about prospective franchisees from other third-party information sources. To avoid competition between individual franchisees located in the same town or market, MHP allocates a certain defined area to each franchisee and guarantees that no other "Nasha Ryaba" branded outlets will be located within such area. MHP sells its products to all of its franchisees at uniform prices, and MHP provides its franchisees with recommended prices at which to sell MHP's products to retail customers. See "—Pricing". None of MHP's franchisees accounted for more than 3% of MHP's aggregate sales in 2009.

Depending on the region, MHP's branded points of sale vary in size and location. Due to higher real estate prices, the points of sale in Kyiv are usually located in relatively small stand-alone kiosks. In other regions, the points of sale may be in the form of larger stores or concessions within bigger retail stores. MHP's franchisees generally own the stand-alone points of sale or rent space in retail stores.

Each selected franchisee is required to enter into a franchise agreement with a term of one year, in which MHP agrees to grant it the right to use its "Nasha Ryaba" trademark and business processes. According to MHP's standard franchising agreement, all branded points of sale are required to meet certain uniform standards, as set out in MHP's guide on retail sales of "Nasha Ryaba" branded products. MHP's franchisees are required to arrange advertising materials provided by MHP at each point of sale in accordance with rules established by MHP and are prohibited from using any advertising materials which have not been approved by MHP.

MHP aims to review each point of sale to ensure compliance with MHP's standards at least twice a week. In 2009, MHP requested approximately 20% of its franchisees to improve their operating standards following inspections by MHP. In the same period, MHP terminated its relationship with approximately 3% of its franchisees, which failed to remedy the deficiencies in operation of their outlets.

In addition, franchisees are required to maintain particular operating equipment at each point of sale, such as refrigerators and certain types of sale counters. MHP generally sells standard "brand" refrigerators to its franchisees for its products such as "Nasha Ryaba" chicken products to ensure quality and consistency of branding message. Sale and purchase agreements for these refrigerators usually provide for an upfront payment of 30% of the purchase price, with the remainder payable in six equal monthly instalments. For products of less known brands, such as "Lehko!", MHP usually leases the refrigerators to its franchisees at no cost to the franchisee.

Before beginning to sell MHP's products, selected franchisees are trained by MHP's regional managers, who are also available throughout the term of the franchising agreement to provide additional advice as required. Franchisees are required to contact their respective pre-allocated regional managers to place orders for next day delivery of MHP's products. Each franchisee also provides MHP with a monthly

report on each of the points of sale it operates as well as the quantity and price of products sold in that particular month.

Sales to Supermarkets and Other Retailers

MHP is a supplier to many leading Ukrainian food retailers, including Metro Cash & Carry, Auchan, Fozzy, Billa, Furshet and Velyka Kyshenya. Except for the Metro Cash & Carry supermarket chain, which accounted for approximately 8% of MHP's sales, none of MHP's supermarket and other retailer customers accounted for more than 5% of MHP's sales in 2009. MHP closely coordinates its sales to supermarkets and other retailers through its warehouse management and inventory control system, which operates throughout Ukraine. In 2009, MHP sold approximately 40% of its chicken products, approximately 50% of its "Certified Angus" beef products, approximately 20% of its foie gras products and approximately 20% of its sausages and cooked meat products to supermarkets and other retailers in 2009.

MHP's supermarket customers usually carry out a quality audit of MHP's production facilities to ensure MHP's compliance with their hygiene and other standards prior to entering into a supply contract with MHP.

Sales to Foodservice, Industrial and Other Businesses

MHP is a supplier to various foodservice businesses, including hotels, restaurants and cafes that use chicken and other meat products. It provides a wide range of meat products and by-products, including its "Lehko!" branded convenience food products, to meet the varied needs of its foodservice businesses from fast-food restaurant chains to full-service restaurants. MHP is also a supplier to companies that further process chicken or use chicken as an ingredient in products that they produce. Management believes that the breadth of MHP's product line is a strength in this "industrial" segment of the market. In 2009, MHP sold approximately 20% of its chicken products, approximately 50% of its "Certified Angus" beef products and approximately 70% of its foie gras products to foodservice businesses, most of which were restaurants, as well as to industrial and other businesses.

While demand generally exceeds supply, MHP's ability to sell its chicken products either chilled or frozen gives MHP flexibility in responding to one-day deviations between supply and demand.

Export

MHP exports some of its frozen chicken and convenience food products to the CIS, primarily Kazakhstan and Georgia, which together accounted for approximately 4% of its 2009 volumes of poultry and related products sold. MHP has also applied for certification to export its products into the EU and in 2010/2011 is expecting that such certification can be obtained (although several aspects of the procedure are out of MHP's control). Once the relevant certification is received, MHP may consider increasing the current levels of export if export prices are attractive when compared to domestic sales.

Pricing

MHP's pricing policy is aimed at attracting new customers and retaining existing ones. Pricing is determined centrally for all of MHP's products, taking into account market conditions, seasonality and supply levels. In addition, MHP regularly monitors prices charged by its competitors. MHP approves a wholesale price list for all of its products on a monthly basis but is able to adjust its prices more frequently in response to market conditions. MHP operates a discount system for its regular customers, including all franchisees. Discounts are set on a monthly basis, depending on market conditions and the relevant customer's relationship and standing with MHP. Due to the quality of its products and the strength of its brand, MHP tends to price its products, after taking into account discounts, marginally higher than its competitors. MHP does not set retail prices for its products but provides its franchisees with recommended prices at which to sell MHP's products to retail customers.

Management believes that, due to consumer preferences, chilled chicken products can be sold at a premium over frozen chicken products. The average prices for a kilogram of MHP's chilled whole chickens (exclusive of VAT) were UAH 8.30 per kilogram, UAH 11.56 per kilogram and UAH 12.33 per kilogram in 2007, 2008 and 2009, respectively, as compared to UAH 6.78 per kilogram, UAH 9.9 per kilogram and UAH 11.33 per kilogram for MHP's frozen whole chickens during the same periods. The average price for chilled whole chickens was 22.4%, 16.8% and 8.8% higher than the average price for MHP's frozen whole

chickens in 2007, 2008 and 2009, respectively. See “Industry Overview—Overview of the Ukrainian Markets for Meat Products—Competition in the Ukrainian Poultry Market”.

For a discussion of factors that affect prices for MHP’s products and trends related thereto see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—External Factors Affecting MHP’s Results of Operations—Fluctuations in Demand for Chicken Products” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—External Factors Affecting MHP’s Results of Operations—Fluctuations in Market Price for Chicken Products”.

Marketing and Advertising

The objective of MHP’s marketing and advertising activities is to attract and retain customers, improve and maintain brand awareness, engender customer trust in the quality of MHP’s products and promote MHP’s brands. MHP seeks to make its brands the leaders in each of the markets in which it operates. In 2009, MHP’s advertising expenses amounted to approximately 1.5% of MHP’s total revenues. During 2009, MHP promoted its products through various forms of advertising, including advertising materials placed at its branded points of sale, television, outdoor advertisements, newspapers and magazines, concentrating on the “Nasha Ryaba” brand. In April 2009, the “Nasha Ryaba” brand underwent a successful restyling and was relaunched in a modernised form to maintain its appeal to its expanding customer base. In addition, in 2009, processed meat products were heavily marketed following the acquisition of Ukrainian Bacon.

MHP’s advertising activities are aimed at raising brand loyalty and informing customers of the high quality and healthiness of its products as well as supporting and developing the positive image of MHP’s products generally. According to research conducted by GfK in 2009, unprompted brand recognition of MHP’s “Nasha Ryaba” brand in Ukraine was 95% and prompted brand recognition was 100%. See “—Competitive Strengths—Strong brands”.

MHP regularly communicates with its franchisees and retailers distributing the “Nasha Ryaba” branded products to promote brand loyalty and to increase the quality of customer service at its branded points of sale. To develop its image as a socially responsible company, MHP also takes part in charity activities such as supporting young families in big cities, constructing playgrounds for children throughout Ukraine and sponsoring Christmas events under its “Nasha Ryaba” brand.

The main messages of MHP’s advertising campaign in respect of its “Lehko!” brand are the convenience, high quality and time saving qualities of these products. MHP’s advertising and development strategy for its “Certified Angus” brand includes informing the customers of the unique qualities of MHP’s premium beef products, as compared to beef produced by other companies.

Raw Materials and Suppliers

In addition to internally grown corn and sunflower seeds, MHP sources its feed grain requirements from approximately 160 unaffiliated suppliers selected on the basis of tenders. All of the feed grain purchased by MHP is grown in Ukraine. Fodder content used by MHP include corn, sunflower seeds and peas. One of MHP’s principal suppliers of feed grain is Alfred C. Toepfer International (Ukraine) (“**Toepfer**”), with whom MHP enters into a forward contract for the supply of sunflower seeds on an annual basis. Apart from Toepfer, none of MHP’s suppliers accounts for more than 5% of feed grain purchased by MHP. MHP has its own feed grain storage facilities, which enables it to purchase feed grain during the harvest season and store it and continuously monitor market prices to purchase at optimal prices.

MHP principally sources other components for production of mixed fodder, such as soy cake, lysine, threonine, methionine, enzymes, vitamins and minerals blends, from international suppliers, including Alfred C. Toepfer International (Germany), Degussa AG (Germany) and DCM Nutritional Products (Poland). The materials are supplied on the basis of annual contracts or, as the case may be, on a one-off basis. Prices are negotiated based on market conditions either annually or for each individual delivery.

MHP is self-sufficient in its requirements for wheat seeds and purchases corn, sunflower and rape seeds from a number of Ukrainian distributors. Such distributors generally source seeds from the world leading seed producers, including Monsanto SAS, Syngenta Seeds, Pioneer and Lemcke. MHP typically enters into agreements for the purchase of seeds on an annual basis, prior to sowing season. MHP is able to increase its order of seeds as necessary. Management believes that MHP’s diversified sources of seeds protect it against supply interruptions.

MHP imports its breeder flocks from a breeding company in Germany that specialises in the production of breeder stock. MHP's principal supplier for breeder flocks is Cobb (Germany) Avimex GmbH (Germany) ("Avimex"), which has facilities for production of breeder flocks both in Europe and the United States. Avimex has undertaken to supply MHP with breeder flocks from the Netherlands or the U.K. in case of any interruptions in supplies from Germany. MHP has also discussed with its supplier of breeder flocks contingency arrangements for sourcing of breeding flocks from the United States in case of any import or export bans which may be imposed in Ukraine or in the EU in connection with outbreaks of bird flu or other diseases. MHP's contracts with breeder flock suppliers are typically one year in duration, and prices are negotiated annually based on market conditions. See "Risk Factors—Risks Relating to MHP—Outbreaks of bird flu and other livestock diseases could have a material adverse effect on MHP's business".

MHP uses gas, electricity and water provided by local utility companies for its production facilities. MHP primarily uses gas for heating at its chicken farms. MHP currently obtains natural gas from Ukrainian gas trading companies that source gas primarily from Russia. MHP's contracts for supply of gas provide for supplies of gas sufficient to cover MHP's requirements. The maximum price for natural gas is established by a regulator and is uniform for all Ukrainian enterprises. Natural gas prices are dependent to a large extent on prices charged by Russia for gas supplied to Ukraine. See "Risk Factors—Risks Relating to Ukraine—Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy". MHP currently obtains electricity at regulated rates from regional power distribution companies. MHP has not experienced any problems with gas or electricity supply in the last five years.

MHP's suppliers also include providers of packaging and veterinary services.

Facilities and Properties

Land Plots

MHP has ownership or permanent use rights only to a small portion of the land plots on which its buildings and production facilities are located. MHP leases the land plots underlying almost all of its production facilities, administrative buildings and staff facilities from local authorities under lease agreements, the terms of which range from five to 49 years. The land plots for agricultural purposes, such as for growing grain and fruit, as well as plots used for pastures, are leased from local authorities and individuals under lease agreements the terms of which range from one to 50 years.

Out of the 180,491 hectares of land leased by MHP as at 31 March 2010, 168,365 hectares are fully registered with the state cadastre of Ukraine, while 12,126 hectares are presently in the process of state registration. Management believes that all land upon which its chicken farms are located is properly registered with the state land registrars under duly executed land lease agreements and that these agreements are not voidable. See "Risk Factors—Risks Relating to MHP—MHP's business could be adversely affected if its land allotment lease agreements are invalidated".

MHP has a right to extend each of its current leases and has not experienced any difficulties with extension of the term of its leases in the last five years.

Under existing legislation, MHP also has pre-emptive rights to purchase the land plots it leases and, if the moratorium on sales of agricultural land is lifted, would consider the commercial viability of such purchases on a case-by-case basis. If and when the laws on land ownership in Ukraine change to allow the purchase and sale of agricultural land, MHP may acquire additional land for its operations (should the owners decide to sell). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures".

Buildings and Facilities

MHP owns all of its administrative buildings and production facilities except the Tavriysky mixed fodder mill, which is leased from Novokahovsky KHP, an entity unaffiliated with MHP. MHP leases the fodder mill based on a 25-year lease agreement expiring on 8 June 2029 and subleases the fodder mill to MFC on the basis of short-term sublease agreements, which are regularly renewed. The renewal of the sublease is subject to the prior consent of Novokahovsky KHP as the owner of the fodder mill. MHP intends to continue leasing the fodder mill and the production equipment in the future and to renew the relevant lease and sublease agreements. Ownership rights to certain facilities commissioned by the

Myronivka chicken farm and facilities commissioned by the newly acquired Ukrainian Bacon are in the process of being registered

MHP owns its own Ukrainian corporate headquarters building of approximately 10,000 square metres which is located at 158 Zabolotnogo Street in Kyiv.

Licences and Permits

MHP relies on several licences for its operations, including licences for the production of pedigree resources (incubatory eggs and pedigree birds), which are necessary for MHP's chicken production operations, and licences for the production of pedigree cattle, which are necessary for MHP's beef production operations.

Production Facilities and Technological Processes

According to Ukrainian law, including Article 331(2) of the Civil Code Article 1 of the Law of Ukraine "On Liability of Companies, their Associations, Institutions and Organisations for Violations in the Sphere of Urban Development" dated 14 October 1994 and the Resolution of the CMU "On Commissioning of Completed Construction Facilities" dated 8 October 2008, the operation of newly constructed properties that have not been duly commissioned is prohibited. The commissioning of a newly constructed property must be certified by a commissioning certificate issued by the respective local state inspectorates for architecture and construction control. Such certificate confirms the compliance of a constructed property with the design and construction standards, requirements of local utility providers, safety rules, sanitary, fire protection, and technical standards under Ukrainian law. Violation of this requirement may lead to imposition of fines in the amount of 10% of the value of the construction services. All of MHP's existing material operating facilities were formally commissioned in compliance with the applicable legislative provisions.

Under the Law of Ukraine "On Safety and Quality of the Food Products", dated 23 December 1997, as amended, (the "**Food Safety Law**"), MHP, as an operator of food production facilities, is required to obtain an operational permit in respect of all of its facilities for production of food products and fodder. Without such permits, which are to be issued by local departments of each of the Ukrainian State Committee of Veterinary Medicine ("**SCVM**") and the State Sanitary and Epidemiological Service of Ukraine ("**SSES**"), MHP is not permitted to produce, process, store, transport or sell its food products and fodder. MHP's companies engaged in food production comply with this requirement and have obtained operational permits.

MHP must also obtain approval for all newly introduced technological processes from the Agrarian Ministry. As of the date of this Offering Memorandum, there are no regulations or procedures in place enabling companies to obtain the approval for newly introduced technological processes and, accordingly, such approvals are not currently being issued. MHP plans to obtain all necessary approvals as soon as implementing regulations and procedures become available.

Pedigree Resources

According to the Law of Ukraine "On Licensing of Certain Types of Business Activities" dated 1 June 2000, companies engaged in the production, storage and sale of pedigree resources (including breeder flocks and hatching eggs) are required to receive licenses for such activities from the Ministry of Agrarian Policy of Ukraine. Such licenses were issued for 5 years. However, in late 2009 the Law of Ukraine "On Licensing of Certain Types of Business Activities" was amended to extend the term of licenses for the production, storage and sale of pedigree resources for an unlimited period. Such licenses are conditional on the issuance of a pedigree farm status certificate by the Ministry of Agrarian Policy of Ukraine and registration of a particular pedigree resource with the state pedigree register maintained by the Ministry of Agrarian Policy of Ukraine. A pedigree farm status certificate is issued following a state audit. Mandatory state audits are conducted every four years. Sales of pedigree resources to third parties are subject to additional certification of each consignment by local state pedigree inspectors. MHP generally complies with such requirements and holds licenses for the production and sale of pedigree resources.

Animal Feed Production

According to the Law of Ukraine on "Veterinary Medicine" dated 25 June 1992, fodder mills are required to obtain operational permits. Each fodder mill is assigned an identification number by the

SCVM and that number is registered in the state register of fodder mills. MHP's fodder plants generally have such operational permits.

Only registered animal feed can be used or sold in Ukraine. Animal feed is registered by the SCVM following an application by an enterprise, expert reports and appraisals by the National Agency of Veterinary Medicine and Fodder Additives, and conclusions of the State Pharmacological Commission of the Veterinary Medicine. Once the animal feed is registered, the SCVM provides the applicant with a registration certificate and includes the compound fodder into the Register of Veterinary Products maintained by the SCVM. The term of validity of the registration certificate may not exceed five years. In some cases, MHP's animal feed is not registered with the veterinary authorities. However, Management believes that it will shortly obtain such registrations.

Companies producing, shipping, storing, selling and using animal feed in its facilities are subject to regular assessments by the Scientific and Research Controlling Institute for Veterinary Medicine and Fodder Additives (the "**Institute**"). The Institute may temporarily suspend the activities of such companies if the companies violate the applicable regulations and standards.

Environmental and Other Licenses and Permits

Ukrainian law requires that companies which operate artesian wells of depths greater than 20 metres obtain permits for sub-soil use and permits for special water use. Although MHP is in compliance with the requirement for water use permits, none of the Group companies has obtained or holds a valid permit for sub-soil use. According to Management, MHP intends to obtain such permits in the near future.

In addition, MHP's enterprises, where applicable, must obtain other environmental permits, such as permits for air emissions, permits and limits for generation and disposal of solid waste and permits for use, storage, treatment and disposal of toxic substances. MHP is generally in compliance with these requirements.

Management believes that MHP operates its facilities in compliance with the requirements of all applicable sanitary and epidemiological regulations and observes all applicable fire prevention measures.

See "Risk Factors—Risks Relating to MHP—MHP's business could be adversely affected if it fails to obtain, maintain or renew necessary licences and permits or fails to comply with the terms of its licences and permits and/or relevant legislation".

Regulatory Compliance

General

MHP has not been subject to any material claims related to the safety of its products, compliance with veterinary, sanitary, health and safety, processing control or labelling requirements, or the use of genetically modified materials, pesticides, agro-chemicals, steroids or antibiotics in the last five years. See "Certain Regulatory Matters".

Environmental Control

Under applicable Ukrainian legislation, poultry and other meat production facilities are considered to pose increased environmental hazards. As such, they are subject to mandatory state ecological examinations, whereby any pre-project documentation and documentation on the installation of new machinery or the introduction of new technologies are required to be submitted for the state ecological examination. Management believes that MHP complies with these requirements.

As part of its operations, MHP uses various chemicals and produces solid, liquid and gaseous wastes that could have a negative impact on wildlife and vegetation in adjacent areas if improperly discharged. These and other activities are subject to various laws and regulations concerning environmental protection. In accordance with applicable Ukrainian legislation, MHP makes regular environmental payments to the Ukrainian state budget to compensate for pollution generated by MHP's facilities. These payments are effectively an environmental tariff. MHP's annual payments are based on expected emission levels, and they increase significantly if actual levels are higher than these expected levels. The payment scale was initially established by the environmental authorities pursuant to regulations adopted in 1999, and the payment rates are adjusted each year by the Cabinet of Ministers of Ukraine. In 2009, MHP paid to the state budget UAH 1.46 million (U.S.\$0.19 million) in environmental payments.

MHP has not incurred material environmental liabilities, and has not been subject to material environmental investigations, in the past.

The Law of Ukraine “On Waste” dated 5 March 1998 (the “**Law on Waste**”) and implementing regulations of the Cabinet of Ministers of Ukraine require companies using packaging in their operations to make regular payments to a state company “Ukrekokomresurs” to fund the recycling of such packaging or to create their own recycling systems. MHP currently does not comply with this requirement for recycling of packaging. However, given that MHP predominantly uses returnable containers for its products and does not produce a significant amount of packaging materials, Management does not believe there are material risks associated with its failure to comply with these requirements.

Pursuant to the recent amendments to the Law on Waste on 21 January 2010, waste of animal origin, such as slaughterhouse waste, dead cattle and cattle manure, except for manure, used for production of biogas or organic fertilisers, may only be treated through utilisation and not through disposal, as it was permitted previously. Such utilisation must only be conducted by the specialised enterprises and not by the producers of such waste, if they produce goods intended for human consumption, save for cases where such producers have specialised departments dealing with utilisation of waste of animal origin. According to Management, MHP intends to comply with this requirement.

Use of Genetically Modified Organisms

Ukrainian legislation prohibits the use of genetically modified organisms (“**GMO**”) only in the productions of baby food products. Import to, or production in, Ukraine of other food products produced with the use of GMO is permitted, provided that a particular GMO has been registered with the state register of GMO.

Most recently Ukraine has introduced a system of mandatory labelling of food products, which contain GMO or were produced with the use of products containing GMO. MHP does not use GMO in its products or in its fodder.

Use of Steroids, Antibiotics and Other Substances in the Chicken Production Process

Under Ukrainian legislation, use of some steroids, antibiotics and other substances in the chicken production process is allowed, provided that certain maximum thresholds are not exceeded. It is expected that Ukrainian laws regulating the use of steroids, antibiotics and other substances in the food production process will be harmonised with the relevant EU legislation, which applies similar principles to the use of such substances. Management believes that MHP complies with Ukrainian and EU requirements in relation to use of such substances. MHP does not use steroids in its chicken production process. It uses some antibiotics, but only to the extent permitted by applicable legislation.

Use of Pesticides and Agro-Chemicals

Pesticides and agro-chemicals may be imported to, produced, traded, used and advertised in Ukraine only subject to their prior registration with the Ministry of Environmental Protection of Ukraine. Such registration is valid for ten years. After the expiry of the registration, the relevant pesticide or agro-chemical must be re-registered. The Ministry of Environmental Protection of Ukraine publishes the list of pesticides and agro-chemicals, which may be used in Ukraine biannually and provides annual updates to such list.

Companies must submit to the state authorities information on the amounts of pesticides and agro-chemicals, which they possess and/or use on an annual basis. Technical equipment for the use of pesticides and agro-chemicals must also be registered. Such equipment must be re-registered every five years. In addition, technical equipment for the use of pesticides must be certified.

Companies which store or use pesticides or agro-chemicals must insure their civil liability, which may arise as a result of such activities. However, because this type of insurance is generally unavailable in the Ukrainian market and the implementing regulations are absent, most of the companies engaged in the kind of activities in question do not maintain this type of insurance (see “**Business—Insurance**”). Management believes that, to the extent MHP uses pesticides and agro-chemicals in its operations, it complies with the requirements in relation to their use.

Competition Regulation

MHP is subject to Ukrainian competition legislation, including merger control rules. Except as described in “Risk Factors—Risks Relating to MHP—Filings made by MHP or its controlling majority shareholder to the Antimonopoly Committee of Ukraine were inaccurate or incomplete, as a result of which MHP could be subject to fines, which may be material”, MHP has not previously incurred any material liabilities related to competition legislation, and has not been subject to any material investigations by the competition authorities. See also “Industry Overview—Overview of the Ukrainian Markets for Meat Products—Competition in the Ukrainian Poultry Market”. MHP obtained all relevant permissions and clearance from the Antimonopoly Committee of Ukraine for the purchase of Ukrainian Bacon.

Intellectual Property

MHP holds several trademarks, the most important of which include “Nasha Ryaba”, “Certified Angus”, “Foie Gras”, “Lehko!”, “Europroduct”, “Toropyshky”, “Baschinsky” and “STOV Druzhba Narodiv”, all of which are registered with the Ukrainian patent authorities. MHP is currently in the process of registering a new “Ukrainian Bacon” brand. See “Risk Factors—Risks Relating to MHP—Any failure to protect its brand names and other intellectual property could adversely affect MHP’s business.”

Information Technology

MHP uses a unified database management system Microsoft 2000 with licensed software provided by a Russian company, 1C, to support its key functions, including marketing, planning and sales. This system is based on MHP’s corporate multi-service network SPRUT. System connections are established using fibre-optic lines as well as IP and IP MPLS connections provided by telecommunications operators. MHP regularly backs up its IT systems.

MHP has implemented an integrated information system with 1C 8.0 licensed software which covers all operating subsidiaries within the MHP group and allows MHP to implement uniform accounting and reporting processes in compliance with IFRS. The system allows MHP to consolidate financial data from its group companies and transform the statutory financial statements of MHP’s Ukrainian subsidiaries into IFRS financial statements. The system became fully operational in April 2007.

Insurance

MHP insures its principal assets against risk of loss or damage caused by fire, lightning, explosions, arson, natural disasters, water damage, burglary, robbery and mechanical damages. MHP also insures its vehicles against the risk of loss or damage. As required by law, MHP maintains statutory insurance against losses caused by damage to third parties by MHP’s employees or at its operational facilities or as a result of operation of MHP’s vehicles or accidents in the process of the construction of MHP’s facilities. MHP does not have full coverage against losses arising from the interruption of its business or certain damage to its property and equipment, including environmental damage. MHP does not have any insurance coverage in respect of any losses it may incur as a result of outbreak of bird flu or any other livestock disease.

MHP is required by law to maintain product liability insurance with respect to products of animal origin and the use of pesticides and agro-chemicals. However, MHP does not maintain these forms of insurance because of their general unavailability in the Ukrainian market and the absence of implementing regulations for maintaining these types of insurance. There are no prescribed penalties for non-compliance with these insurance requirements, and Management does not believe there are material risks associated with its failure to comply with these requirements.

See “Risk Factors—Risks Related to MHP—MHP’s insurance coverage may be inadequate”.

Legal Proceedings

MHP is subject to various legal proceedings and claims, including proceedings involving Ukrainian tax authorities, which arise in the ordinary course of business. In the opinion of Management, the amount of ultimate liability with respect to these actions will not materially affect MHP’s financial position or results of operations.

Employees

As of 31 December 2009, MHP had approximately 21,000 employees. The average number of employees in MHP for the years ended 31 December 2007, 2008 and 2009 was 19,596, 19,900 and 20,579, respectively. MHP's facilities operate year-round without significant seasonal fluctuations in labour requirements. Most of MHP's employees belong to trade unions or labour or workers' syndicates and there are collective bargaining agreements between most of the MHP companies and their employees. MHP considers its employee relations to be generally satisfactory.

MHP has instituted programmes to improve worksite safety and working conditions, including employee training. MHP regularly inspects its equipment and maintains a labour protection department that is responsible for ensuring compliance with health and safety requirements.

MHP operates a two-tier remuneration policy scheme, whereby overall compensation consists of fixed salary and performance-based bonus. Salaries are paid to MHP's employees according to standards and safeguards stipulated by Ukrainian employment legislation. Performance-related bonuses depend on efficiency and quality of production achieved by each individual employee and such employee's production facility and are paid as a fixed sum on an annual and monthly basis.

MHP has a programme aimed at attracting and retaining qualified young professionals as employees. Key features of the programme include sponsoring specialised agricultural education for the children of its employees, offering summer employment to students from leading Ukrainian agricultural educational institutions and providing accommodation free of charge to its newly employed young professionals.

MHP is subject to the state pension plan. MHP's pension provisions are calculated based on the individual salary of its employees, in accordance with respective laws and regulations of Ukraine. MHP does not operate a private pension plan for its employees and is not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees. MHP's contributions to the State Pension Fund in 2009 amounted to UAH 185.8 million (U.S.\$23.8 million).

MHP makes voluntary post-retirement payments to certain of its key employees. The amount of such payments is set on a case-by-case basis for each employee, and these payments do not account for a significant proportion of MHP's cost of sales.

Save as disclosed in "Shareholders and Related Party Transactions" below, MHP's employees do not hold any shares in the capital of MHP.

CERTAIN REGULATORY MATTERS

See also “Industry Overview—Overview of the World and Ukrainian Markets for Grain—Regulation of the Ukrainian Agricultural Market” for the description of certain regulatory matters related to the Ukrainian grain market.

Regulation of Ukrainian Agricultural Industry

The Ukrainian agricultural industry is subject to governmental regulation and licensing, in particular in the food safety, health and environmental areas.

Food Safety

The Food Safety Law and the Law of Ukraine “On the Protection of Consumers’ Rights”, dated 12 May 1991, as amended, are the principal laws in Ukraine dealing with food safety. According to the Food Safety Law, entities engaged in producing foodstuffs are prohibited from producing and/or putting into circulation products that are dangerous, unsuitable for consumption or incorrectly labelled. Producers are further required to use only permitted, safe and quality ingredients in the permitted amounts for producing food products. Producers and sellers of food products must ensure that sufficient and reliable information on nutrition value, ingredients, proper conditions for storage and preparation of food products, as well as the health warning associated with such products, are available to consumers. Producers and sellers are allowed to sell only those food products of animal origin for which relevant veterinary documents have been issued confirming their safety.

Under Ukrainian legislation, a consumer who has sustained damages as a result of buying and consuming a low-quality, dangerous or incorrectly labelled food product may bring a claim for damages against both the producer and the seller of the product.

Veterinary and Sanitary Control and Supervision

The SCVM and its local bodies are authorised to exercise state control and supervision over the production of all unprocessed food products of animal origin. SCVM officials monitor compliance with applicable sanitary standards of fodder and meat production, storage and transportation. In particular, such officials authorise the commissioning into operation of newly-built or renovated production facilities, approve food products for further circulation and issue veterinary certificates confirming the quality and safety of unprocessed meat products. SCVM officials also inspect meat production facilities and products of animal origin for compliance with applicable sanitary standards and regulations. The SCVM is authorised to determine the frequency of such inspections and generally carries them out on a monthly basis.

In addition, facilities for the production of processed meat products and facilities for the production, processing and storage of grains and sunflower seeds are monitored by the SSES and by the State Inspectorate on the Control of Quality of Agricultural Products and on the Monitoring the Market for Agricultural Products. Grain storage facilities are also subject to certification by local grain inspectorates.

Fire Safety

Under Ukrainian law, the implementation of a new or refurbished production or other facilities, or the lease of any premises, without obtaining the relevant permit from the fire safety supervision authorities (“**Fire Permit**”) is prohibited. Failure to obtain a Fire Permit may result in the suspension, or decommission of work and usage of the legal entity or its equipment and buildings and/or (ii) the relevant authority may confiscate produced goods, equipment, and raw materials of the infringing MHP company.

Biosecurity

All Ukrainian producers of food products of animal origin must comply with the principal legislation related to biosecurity measures. This legislation is the Law of Ukraine “On Veterinary Medicine”, the Law of Ukraine “On Ensuring the Sanitary and Epidemiological Welfare of the Population”, the Food Safety Law and the Law of Ukraine “On the Withdrawal from Circulation, Processing, Utilisation, Destruction and Further Usage of Low-Quality and Dangerous Products”.

The SCVM has enacted detailed regulations based on the foregoing biosecurity legislation applicable to companies operating poultry production facilities.

In light of the global threat of bird flu and following the detection of bird flu in Ukraine, in October 2005 the SCVM enacted the Instruction on Bird Flu Control, which establishes mandatory measures for bird flu prevention to be undertaken by all entities operating poultry production facilities. It also provides for a series of veterinary and sanitary measures to be undertaken in the event of a bird flu outbreak. Among other things, the Instruction on Bird Flu Control provides that all poultry production facilities must operate in a closed regime. In the event of a bird flu outbreak, all infected birds are subject to culling. Moreover, depending on the epizootic situation, clinical course and other factors, the relevant state authorities are authorised to take a decision to cull all bird livestock within a particular unit. In such case, the owners of such livestock are to receive compensation.

In addition, the SCVM adopted a number of instructions aimed at the prevention and elimination of various bird diseases, including Newcastle and Marek's diseases. The measures include compulsory vaccination.

Processing Control

Ukrainian legislation establishes requirements for animals (including chickens) subject to processing and for processing facilities. In particular, only chickens accompanied by documents certifying their safety and health may be processed. Processing of chickens is allowed only at facilities that have been confirmed to be in compliance with all applicable sanitary and veterinary regulations. Chickens being processed are subject to obligatory ante-mortem and post-mortem veterinary controls which are carried out by SCVM veterinary inspectors who check the chickens and apply specially designed marks to carcasses or to packages with meat products. To distribute their meat products, producers are required to periodically obtain veterinary certificates and other documents confirming that their products were manufactured in compliance with applicable requirements and are suitable for further sale or storage. Such certificates are issued, depending on the type of compliance procedure, on a daily, fortnightly or monthly basis.

Producer's Declaration of Quality

Every producer of food products must issue a producer's declaration in respect of each shipment of its products. The declaration certifies that the relevant products have been produced in conformity with all applicable standards and regulations. Producers are only allowed to issue a producer's declaration if they are able to confirm the accuracy of the declaration based on documentary evidence, which includes, among other things, confirmations of introduction of quality control systems at their facilities, relevant conclusions of veterinary and sanitary examinations, veterinary certificates and operational permits.

Labelling Requirements

All products must have labels in the Ukrainian language containing the product name, producer's details, weight, ingredients (including food supplements and flavourings), nutritive value and sell-by date.

Under recent legislative amendments, all food product labels in Ukraine must indicate whether a product contains GMO or not.

Health and Safety

The production and processing of food products, including meat products, involves the performance of certain hazardous activities, including sanitising and disinfecting production, storage and transportation facilities, working with dangerous substances, gas-hazardous work and work with objects under high pressure, which give rise to a general risk of accidents.

Ukrainian producers are subject to various Ukrainian laws governing workplace safety. Their operations are monitored by the State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision (the "**Labour Protection Committee**"). The Labour Protection Committee has the power to inspect, at any time, the condition of producers' equipment and to monitor dangerous manufacturing processes. The Labour Protection Committee also has wide powers to take remedial measures, including stopping any equipment and processes not in compliance with applicable laws and regulations or deemed to be dangerous to the health and safety of employees. The Labour Protection Committee is authorised to impose fines for violations of applicable labour regulations.

Pricing Regulation

Under Ukrainian legislation, the local state authorities may regulate prices of certain food products, including chicken meat, pork and beef. In particular, the local state authorities may from time to time oblige producers of certain food products, including chicken meat and beef, to obtain approval from the local officers of the State Prices Inspection before increasing the wholesale prices of such products by more than 1% in any given month. Furthermore, the Cabinet of Ministers of Ukraine introduced a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it limits the profit margin charged on such products. Management believes that the approach MHP uses for determining the wholesale prices for MHP's products is in line with the formula established by the above procedure, and that the Ukrainian price regulation mechanism described above will not have a negative impact on MHP's business and financial results.

Ukrainian Legislation Related to Land and Other Real Estate

General

Ukraine recognises private ownership of real estate. The Constitution of Ukraine, together with the Civil Code of Ukraine, dated 16 January 2003 (the "**Civil Code**"), the Commercial Code of Ukraine dated 16 January 2003 (the "**Commercial Code**"), the Land Code of Ukraine, dated 25 October 2001 (the "**Land Code**") and other laws, recognise and protect the right to own private property.

Ukrainian legislation specifically permits the use of privately owned property for commercial purposes, including leasing of such property, and permits the retention of revenues, profits and production derived from the commercial use of property. According to the applicable Ukrainian legislation, private ownership is judicially protected.

Ukrainian law distinguishes between ownership rights with respect to land and buildings. These are treated separately so that, upon the transfer of ownership rights relating to a building, the ownership of the underlying land may or may not pass to the new owner, depending on a number of factors.

On 25 October 2001, the Parliament of Ukraine adopted a new Land Code which came into effect on 1 January 2002 and introduced a number of important changes to the regulation of the Ukrainian real estate market (the "**New Land Code**"). The Land Code introduced the general right to own land. Under prior law, only Ukrainian citizens were permitted to own land in Ukraine and land sale transactions were permitted only under very limited circumstances. The New Land Code also permitted the mortgage of privately owned land, provided, however, that with respect to agricultural land only banks may hold mortgages of such land.

The Land Code provides for the following basic rights with respect to land: (i) ownership; (ii) land use rights, including the right of permanent use or lease; (iii) a right of use granted under easement; (iv) a right to use the land for agricultural purposes (emphyteusis) or construction purposes (superficies). It also classifies land ownership as private, municipal and state ownership. The right of permanent use is available only to enterprises and organisations which are under state or municipal ownership, to social organisations for the benefit of disabled persons and to religious organisations with duly registered charters. According to the recent amendments to Ukrainian legislation, starting from 1 January 2012 all property rights to real estate will be subject to mandatory registration with the State Register of Property Rights to Immovable Property.

Land is divided into various categories based upon its designated purpose (e.g., residential, industrial, agricultural etc.). Residential land includes land plots used for residential buildings or buildings designated for public use. Industrial land is used for industrial, mining, transportation and other commercial enterprises. Agricultural land is to be used for farming and other agricultural purposes. Moreover, land in Ukraine is subdivided into the different kinds of the designated use within each category, which is indicated in the relevant documentation for a land plot. Under Ukrainian law, a land plot must be used strictly in accordance with its categorised purpose.

Private Ownership of Land in Ukraine

Generally, Ukrainian individuals and legal entities are permitted to acquire ownership rights in private, state and municipal land in Ukraine. Foreign individuals, foreign legal entities and foreign states are allowed to own, use and dispose of certain non-agricultural land in Ukraine, but are explicitly

prohibited from acquiring or owning agricultural land. In contrast, lease rights of foreign individuals and foreign legal entities are not restricted under Ukrainian legislation.

The Land Code does not explicitly grant the right to own any land in Ukraine to Ukrainian companies with 100% foreign ownership. Although this is sometimes viewed as a technical flaw and such subsidiaries are generally treated in the same way as joint ventures, there is a risk that ownership rights of such subsidiaries to land in Ukraine may be challenged. As a practical matter, if a Ukrainian company which owns land is owned by another Ukrainian company, even if that second company is foreign-owned, then there should not be any issues related to land ownership by the first Ukrainian company. Those Ukrainian legal entities which have been established by Ukrainian individuals or legal entities, or joint ventures, may own land in Ukraine, subject to the above restrictions. Joint ventures established by foreign and Ukrainian individuals or legal entities may purchase non-agricultural land owned by the state or by a municipality from the CMU with the approval of the Parliament of Ukraine, or from the relevant municipal council, with the approval of the CMU, respectively. Pursuant to a letter from the State Committee of Ukraine on Land Resources dated 1 October 2009, Ukrainian legal entities which are wholly owned by foreign individuals or legal entities (so called “foreign enterprises” under the Commercial Code) are regarded as “foreign legal entities” for the purposes of acquiring rights to land. Such treatment places them at a disadvantage as compared to other Ukrainian legal entities.

According to the Land Code, the ownership rights to a land plot must be confirmed in each case by a certificate known as the State Act on the Ownership Rights to the Land Plot (the “**State Act**”) or a duly certified sale and purchase agreement or an inheritance certificate.

The Land Code contains a number of transitional provisions which postpone or limit the application of certain provisions of the Land Code until a future date. In particular, until the laws of Ukraine “On the Land Market” and “On the State Land Cadastre” are adopted, but in any event until 1 January 2012, several major restrictions apply to certain types of agricultural land. These restrictions are as follows:

- agricultural land owned by the state or municipalities may not be sold, except for its withdrawal for public purposes;
- sale, alienation in any other way, or change of designated purpose of privately owned commodity agricultural or individual farming land plots and land shares (*pai*), which have been allocated and delimited on site, is prohibited. An exception is made for the exchange of such land plots, inheritance and withdrawal for public purposes.

Leasing of Land in Ukraine

All Ukrainian and foreign individuals and legal entities, as well as foreign states may lease land in Ukraine. The Land Code provides for short-term (up to five years) and long-term (up to 50 years, the maximum lease term permitted under Ukrainian law) land leases.

The Land Code also allows subleasing arrangements, subject to the lessor’s consent. Land lease relations are regulated in detail by the Law of Ukraine “On the Lease of Land”, dated 6 October 1998 (the “**Land Lease Law**”).

According to the Land Lease Law, land lease agreements must be executed in writing and must contain the following essential provisions:

- the subject matter of the lease (namely, the property’s location and size);
- the term of the agreement;
- the amount of the rent and the terms and means of payment, indexation of the rent, procedure for changing its amount, and liability for the failure to pay;
- the terms of use and designated purpose of the leased land plot;
- the terms of maintenance of the leased property;
- the terms for transfer of the land plot by the lessor to the lessee;
- the terms for return of the land plot by the lessee to the lessor;
- a description of all existing restrictions and encumbrances of the land plot;
- provisions allocating the risk of damage or loss of the land plot;

- liability of the parties;
- provisions regarding mortgage over rights to a land plot; and
- provisions regarding contribution of rights to a land plot to a charter capital of a legal entity.

The absence in a land lease agreement of any of these conditions can result in the refusal on state registration of the agreement and the invalidation of the agreement.

The land lease agreements must contain all of the principal terms and conditions provided for in the model land lease agreement approved by the Regulation of the Cabinet of Ministers of Ukraine “On Adoption of the Model Land Lease Agreement” dated 3 March 2004, No. 220, and must be registered with the state land authorities.

Only after the state registration does a land lease agreement becomes effective giving a lessee lease rights to the land. Any amendments to a land lease agreement also require state registration. Currently, the registration of the land lease rights is carried out by the local bodies of land resources. However, starting from 1 January 2012, this registration function will be transferred to the respective territorial departments of the Ministry of Justice of Ukraine.

A lease agreement is required to contain the following:

- the plan or scheme of land plot being leased;
- the cadastral plan of the land plot indicating restrictions (encumbrances) on use and established easements;
- the certificate of determination of land plot boundaries afield;
- the delivery-acceptance certificate on the transfer of the land plot; and
- the lease allocation project (when and if required under Ukrainian law).

The original lease term may be extended as many times as the parties desire, provided that they re-execute the lease agreement upon each extension and register the re-executed agreement with the land authorities. Under Ukrainian law, the lessee has a pre-emptive right to extend the lease, provided it has duly fulfilled all of its obligations under the original lease and upon all other conditions being equal, including paying the price equal to the highest bid if the lease right to the land plot is auctioned. However, the Ukrainian courts have held that a lessee has no right to extend the lease in the event that the lessor decides not to lease the subject property any longer.

Under the Land Lease Law, the lessee has a pre-emptive right to purchase the land in the event that the lessor seeks to sell the leased property. In order to exercise such right, the lessee must pay the price at which the land is offered for sale, or, if a property is auctioned by the lessor, the lessee’s offered price must be equal to the highest bid.

Under the Land Lease Law, the parties to a lease agreement are generally free to determine the amount and timing of the land rent under the lease. However, the rent relating to land held in state or municipal ownership must be paid in cash and may not be lower than the amount of the land tax applicable at the respective period of time for the same land plot with agricultural designated use and triple amount of the land tax for the same land plot of non-agricultural designated use, as calculated in accordance with the Law of Ukraine “On the Land Tax”, dated 3 July 1992, as amended (the “**Land Tax Law**”). In addition, for such properties, the annual land rent may not exceed 12% of the normative state valuation of the particular land plot. However, the amount of land rent may be higher in case the lease rights to the land plot are sold through auction. Land lease agreements may be concluded in a simple written form.

Under Ukrainian law, the amount of land rent may be revised upon the mutual consent of the parties to the lease. Also, the lease agreements for state and municipal lands generally provide that the actual amount of the land rent fluctuates annually based on the updated normative state valuation ascribed to the land according to the coefficient determined and published in the beginning of each year by the State Agency on Land Resources. As of 1 January 2010, the coefficient is 1.059.

Acquisition of Land into Ownership and Lease

The Land Code contains provisions governing acquisition of ownership and other rights to land. The ownership right of individuals to land may arise pursuant to land sale and purchase transactions, gift, exchange, inheritance or other civil law contracts. Moreover, Ukrainian citizens are entitled to acquire land

in the course of privatisation, allotment of land shares (*pai*) in kind or under other procedures established by the law, whereas foreign and stateless individuals may acquire the land underlying the buildings in their ownership. The law distinguishes between the grounds for obtaining ownership rights to land by Ukrainian and foreign legal entities. In contrast to Ukrainian legal entities, Ukrainian law provides for certain restrictions in respect of foreign legal entities. Foreign legal entities are entitled to acquire non-agricultural land within the borders of the city (town, village) when acquiring real estate, or for the purpose of constructing real estate objects, which are related to a business activity in Ukraine. With respect to land outside of the city borders, foreign legal entities may only purchase it, if such land is located under existing buildings.

As a general rule, state or municipal land or a right thereto (lease, superficies, emphyteusis) must be sold (granted) at an auction. There are a number of exceptions to this rule, a major one of which is that land under privately owned buildings may be sold without auction procedures. As a matter of practice, some implementing legislation is yet to be adopted for the land auctions to work efficiently. The procedure for acquisition of ownership rights to land varies depending on the transferor and transferee of such rights. Under the applicable land legislation, as a general rule, ownership to the state owned or municipal land passes to a new owner upon approval of such a transfer by a relevant state executive body or municipal authority and execution of a land acquisition agreement. The process of land acquisition by foreign legal entities requires prior approval of the transaction by the CMU with further consideration of the same matter by a relevant state executive body or municipal authority. Upon execution of a land sale acquisition agreement, the state registration of the transferee's ownership to the land is performed and (i) the respective writ regarding the new owner of the land plot and the land purchase agreement is made on the respective State Act or (ii) a new State Act is issued in the name of the new owner.

Leasing of Real Estate Other Than Land (Buildings and Structures)

The Civil Code contains general provisions governing the leasing of movable and immovable property. In particular, according to the Civil Code, the lease of a building (or other capital structure) or part thereof must be concluded in writing and must be notarised and registered with the State Register of Deeds if entered into for a period of three years or longer.

State Registration of Rights to Immovable Property and Certain Transactions

Sale and purchase agreements, gift agreements or other types of agreements which address ownership rights to real estate must be notarised and registered with the State Register of Deeds. In addition to registration of the agreement with the State Register of Deeds, the property rights must also be registered: in relation to a building, with the local Bureau of Technical Inventory and in relation to a land plot, with the local Department for Land Resources.

Information concerning encumbrances on real estate is contained in the following State Registers:

- the Uniform Register of Prohibitions on the Alienation of Real Estate;
- the State Register of Mortgages;
- the Register of Encumbrances of Movable Property (in respect of tax liens); and
- the Land Cadastre.

According to the Law of Ukraine “On the State Registration of Property Rights to Immovable Property and Encumbrances Thereof” of 1 July 2004, the State Register of Property Rights to Immovable Property (the “**Register**”) is to start functioning from 1 January 2012. The register will contain consolidated information on all property rights to real estate, the existing and past transfers and encumbrances over such rights. The Ministry of Justice of Ukraine will be authorised to carry out the state registration of property rights to, and encumbrances over, real estate through its territorial departments. However, until 1 January 2012, ownership rights/rights of lease to immovable property should be registered separately from encumbrances thereon.

In case of any dispute over particular real estate object, registered rights to that real estate object prevail over non-registered rights. Furthermore, the real estate owner may enter into an agreement in respect of real estate only after the ownership right is duly registered. Thus, real estate, the ownership right to which is not duly registered, may not be legally sold.

Liabilities of Owners

Owners of land plots and buildings must comply with various environmental, public health, fire, residential, urban planning and other requirements of Ukrainian law. The owner of a building is generally liable for claims that may arise in connection with the building. Owners and leaseholders are required to use the land in accordance with its intended use, not to cause harm to the environment, assume the liability and financial costs relating to compliance with the various land use standards and not to allow the pollution of, littering on, or degradation of, the land.

Land Taxation

Owners of land and those with permanent rights to use land must pay a land tax and lessees must pay the land rent as set forth in the lease agreement. Currently, the general land tax for land plots located within city limits, subject to certain exceptions established by the Land Tax Law, is 1% per year of the normative (state) appraised value of the land, which is updated periodically. The general land tax for agricultural land is established at the rate of 0.1% per year of the normative (state) appraised value of the land for tillage, pastures and hayfields and 0.03% per year of the normative (state) appraised value of the land for perennial plantations. Tax is paid on a monthly basis at one-twelfth of the annual tax amount.

The appraisal of land is carried out by authorised licensing organisations in accordance with the methodology adopted by the CMU. This methodology accounts for various factors, including, but not limited to, the location of the land and the purpose for which the land is to be used. The valuation of a particular land plot is carried out at least once every five years with respect to agricultural land and at least once every seven years with respect to non-agricultural land.

With each new valuation, the original valuation is to be adjusted pursuant to a formula adopted by the CMU. The market value of land is not uniform across Ukraine and may vary greatly from place to place depending on the factors affecting the valuation. Furthermore, the valuation of land, which is the basis for the computation of the land tax, fluctuates from year to year.

DIRECTORS, CORPORATE GOVERNANCE AND MANAGEMENT

Directors

The Issuer's directors (together, the "Board of Directors") are:

Name	Year of Birth	Position
Charles E. Adriaenssen	1956	Non-Executive Chairman
Yuriy A. Kosyuk	1968	Chief Executive Officer
Victoriya B. Kapelyushna	1970	Director, Chief Financial Officer
Artur Futyma	1969	Executive Director
Yevhen H. Shatokhin	1976	Executive Director
Dr. John C. Rich	1952	Non-Executive Director
John Grant	1945	Non-Executive Director

Each member of the Board of Directors, except Mr. Futyma, was elected on 30 May 2006. Mr. Futyma was elected on 12 September 2007. The term of office of each member of the Board of Directors will expire at the Issuer's annual general meeting of shareholders stating on the annual accounts as of 31 December 2011.

Charles E. Adriaenssen is the non-executive Chairman of the Board of Directors. From 2004 through 2010, Mr. Adriaenssen served as a non-executive director of EPS SA, a holding company for the Belgian brewing company, Inbev. He was a member of the Board of Directors of Interbrew N.V. from April 2000 to August 2004. Since June 2006, Mr. Adriaenssen has been a member of the Board of Directors and a member of the Corporate Governance, Nomination and Remuneration Committee of Eurochem, a company engaged in the production of fertilisers. He is the Founder and Chairman of the Board of CA & Partners SA, consulting and management training company and is the Chairman of the Board of Outhere SA, an independent European publisher of classical music. Mr. Adriaenssen is the Chairman of Bastille Investments, a private investment company, since 2005 and is a member of the Board of Directors of Rayvax Holdings SA, which holds investments in Anheuser-Busch InBev S.A., since 2004. From 1982 to 1995 Mr. Adriaenssen served in various diplomatic positions with the Belgian Foreign Services. Mr. Adriaenssen received a Bachelor of Arts degree in philosophy from the University of Vienna and holds a law diploma from the University of Antwerp.

Yuriy A. Kosyuk is the Chief Executive Officer of the Issuer. He has served in similar roles with MHP since founding MHP in 1998 and is the CEO of JSC MHP. Mr. Kosyuk previously worked as the President of Business Centre for Food Industry ("BCFI") from November 1995 to October 1999, a company which he founded in 1995 which was active in the domestic and export trade in grain and other agricultural products. Mr. Kosyuk graduated from the Kyiv Food Industry Institute in 1992 as a processing engineer of meat and milk production.

Victoriya B. Kapelyushna is the Chief Financial Officer of the Issuer. She has served in similar roles since April 1996 when she joined BCFI as the Deputy Chief Accountant and assumed the role of Chief Accountant in March 1997. Ms. Kapelyushna joined MHP in 1998. Ms. Kapelyushna is also the financial director of JSC MHP. Ms. Kapelyushna graduated from the Kyiv Institute of Food Industry with diplomas in meat processing engineering and in financial auditing in 1992 and 1998, respectively.

Artur Futyma is an Executive Director of the Issuer and also serves as the Deputy of the CEO on development at JSC MHP where he is responsible for managing new projects. He has served as a director of JSC MHP's agricultural department between November 2001 and November 2007. Mr. Futyma has been working at MHP since 1 December 1998 and prior to that worked at BCFI since 1996. He graduated from Kyiv Institute of Food Industry with a diploma in food machinery engineering in 1992.

Yevhen H. Shatokhin is an Executive Director of the Issuer and also serves as the Deputy Chairman and Head of Sales of JSC MHP since 2007. He served as the General Director of Druzhba between 2003 and 2007. Mr. Shatokhin graduated from the National University Kyiv-Mohyla Academy with a diploma in history and political science in 1998. He graduated from Kharkiv State Veterinary Academy with a diploma in mechanical engineering in 2006.

Dr. John C. Rich is a non-executive director. Dr. Rich is currently the Managing Director of Australian Agricultural Nutrition and Consulting Pty Ltd, an agricultural consulting company and is also a specialist agribusiness consultant for the IFC. He has previously served in various positions with companies and

institutions operating in the world agricultural industry, including Executive Director of Austasia Pty Ltd, an agribusiness company with operations in Australia and South East Asia, from 1990 to 2003. From 1995 through 2002, Dr. Rich worked as director of AN-OSI Pty, a private nutritional consultancy company specialising in supply chain management of feedlot beef, poultry and dairy operations in Asia and Europe. Dr. Rich received Bachelor of Science and Bachelor of Veterinary Science degrees with honours from the University of Sydney and is a member of the Australian College of Veterinary Scientists and the Royal College of Veterinary Surgeons and has completed a number of post graduate courses in the agricultural and food industry.

John Grant is a non-executive director and also serves as the Chairman of the Audit committee of the Issuer. Mr. Grant has been the Chairman of the Boards of Torotrak plc since 2005. He has served as a non-executive director of The Royal Automobile Club Limited and Melrose plc since 2004 and 2006, respectively. Mr. Grant previously served as the Chairman of the Board of Peter Stubs Limited and Hasgo Group Limited, respectively, the Chairman of the Board of the Royal Automobile Club Motor Sports Association Limited from 2002 to 2005 and as a non-executive director of National Grid plc from 1995 to 2006, Torotrak plc from 1998 to 2005 and Corac Group plc from 2000 to 2006. Mr. Grant also served as the Finance Director of Lucas Industries plc and Lucas Varsity plc from 1992 to 1996 and previously as the Director of Corporate Strategy of Ford Motor Company. Mr. Grant received a Bachelor of Science degree in economics from the Queen's University of Belfast and he also holds a Master of Business Administration degree from the Cranfield School of Management.

The business address for all of the members of the Board of Directors is 5, rue-Guillaume Kroll, L-1822 Luxembourg, Grand-Duchy of Luxembourg.

Senior Management of MHP

Members of MHP's senior management, other than the Issuer's executive directors, are:

Anna Dragomiretskaya has served as a member of the board of JSC MHP from July 2002 through December 2007. She is responsible for corporate and legal issues at MHP. She has been working at MHP since 13 November 1998. Ms. Dragomiretskaya worked at the BCFI as a lawyer from September 1997 until November 1998. Prior to that, Anna worked as a lawyer with the law firm of Ukrkurservice from December 1996 until September 1997. She graduated from Kyiv National Taras Shevchenko University with a diploma in law in 1996.

Dina Ivleva has served as a head of chicken production of MHP since 30 November 1998 and prior to that worked at BCFI since 1997. She is also responsible for training head technologists for MHP's chicken farms. Ms. Ivleva has over 30 years of experience in the poultry industry and, prior to joining BCFI served at the Ukrainian Ministry of Agriculture as head of its poultry technology department. Ms. Ivleva graduated from Moscow State Agricultural University with a diploma in poultry production in 1968.

Olexander V. Bondar is the chief veterinarian of the MHP group. From 2007 he served as a chief parental herd specialist of MHP. Mr. Bondar graduated from Kharkiv Zoo-Veterinary Institute in 1973 and has served as MHP's chief veterinarian since October 2008. He is responsible for livestock health issues at all MHP group companies.

Maxim E. Pisarev has been the Deputy Chairman of the board of JSC MHP on production processes since November 2007. Prior to joining MHP, he worked at JSC "Poultry Farm Dniprovsky" where he served as the chairman of the supervisory board between July 2002 and February 2007 and then as first deputy of the CEO between February 2007 and October 2007. Mr. Pisarev served as the Director of Attis LLC, where he was involved in securities dealings from October 1997 to June 2002. He graduated from Zaporizhyya State University with a diploma in accounting and audit in 1997.

Dmitriy Borodavka has been the Deputy Chairman of the board of JSC MHP responsible for agricultural operations since September 2008. He has been working at MHP since 1998. He graduated from the National Agricultural University in 1998 and is a qualified scientific agriculturist.

Corporate Governance

The Issuer is in full compliance with Luxembourg's voluntary corporate governance regime. The Luxembourg Stock Exchange has published non-binding principles of corporate governance contained in "Ten principles of corporate governance of the Luxembourg stock exchange" approved by the Luxembourg Stock Exchange in October 2009.

The recommended principles are the following:

Principle 1—Corporate governance framework

The company will adopt a clear and transparent corporate governance framework for which it will provide adequate disclosure.

Principle 2—Duties of the board

The board will be responsible for the management of the company. As a collective body, it will act in the corporate interest and serve the common interests of the shareholders ensuring the sustainable development of the company.

Principle 3—Composition of the board and the special committees

The board will be composed of competent, honest and qualified persons. Their choice will take account of the specific features of the company.

The board will establish the special committees necessary for the proper performance of its task.

Principle 4—Appointment of directors and executive managers

The company will establish a formal procedure for the appointment of directors and executive managers.

Principle 5—Conflicts of interest

The directors will take decisions in the best interests of the company. They will warn the board of possible conflicts between their direct or indirect personal interests and those of the company or any subsidiary controlled by the company. They will refrain from participating in any deliberation or decision involving such a conflict, unless they relate to current operations, concluded under normal conditions.

Principle 6—Evaluation of the performance of the board

The board will regularly evaluate its performance and its relationship with the executive management.

Principle 7—Management structure

The board will set up an effective structure of executive management. It will clearly define the duties of executive management and delegate to it the necessary powers for the proper discharge of these duties.

Principle 8—Remuneration policy

The company will secure the services of qualified directors and executive managers by means of a suitable remuneration policy that is compatible with the long-term interests of the company.

Principle 9—Financial reporting, internal control and risk management

The board will establish strict rules, designed to protect the company's interests, in the areas of financial reporting, internal control and risk management.

Principle 10—Shareholders

The company will respect the rights of its shareholders and ensure they receive equitable treatment.

The company will establish a policy of active communication with the shareholders.

Board of Directors

Members of the Board of Directors are elected by a majority vote of shareholders at the annual general meeting. Directors may be elected for a term not exceeding six years, and may be re-elected an unlimited number of times. The Board of Directors currently consists of seven members, three of whom are considered to be independent pursuant to criteria adopted by the Board of Directors on 7 June 2006. All members of the Board of Directors serve on the Board of Directors pursuant to a resolution of the Issuer's general meeting of shareholders'. In addition, each of the members of the Board of Directors has

signed a letter of appointment with the Issuer, which apply for so long as each member remains a director. The letters of appointment do not provide for any benefits upon termination of the directorship. In addition, the letters of appointment in respect of each of Mr. Adriaenssen, Dr. Rich and Mr. Grant provide for payment of compensation and reimbursement of certain expenses by the Issuer. Ms. Kapelyushna, Mr. Futyma and Mr. Shatokhin do not receive compensation from the Issuer for their services as directors, and their expenses in connection with such services are reimbursed by JSC MHP or its consolidated subsidiaries, as the case may be.

The terms and conditions for the appointment of Mr. Kosyuk as the Issuer's CEO (the "**Terms**") were agreed between Mr. Kosyuk and the Issuer and signed on 21 June 2006. The Terms are for the duration of Mr. Kosyuk's office and do not provide for any benefits upon termination of his directorship. However, Mr. Kosyuk may only resign from his position as Chief Executive Officer subject to a prior three-months' notice. The Terms contain confidentiality obligations applicable to Mr. Kosyuk for a period of five years after termination of his office. The amount of remuneration and benefits paid by the Issuer to the persons responsible for the day-to-day management of the Issuer is reported by the Board of Directors to the annual general meeting of shareholders.

The amount of remuneration and benefits paid to all members of the Board of Directors, including the Chief Executive Officer, regardless of whether such remuneration or benefits is paid by the Issuer or by any other entity within the MHP group of companies, is established by the Nominations and Remuneration Committee. In addition, the amount of remuneration paid to all members of the Board of Directors by the Issuer is approved by the Issuer's general meeting of shareholders.

On 7 June 2006, the Board of Directors adopted a number of resolutions that establish the general parameters of the Issuer's procedures for the management and conduct of its business. The Issuer will procure that these procedures are applied consistently in all companies of the MHP group. These include:

Authorisation for the Chief Executive Officer, in the context of daily management of the Issuer, is to enter into any transaction on behalf of the Issuer up to a value of €10 million and for such purpose to execute relevant documents or to delegate powers as appropriate.

So long as the Board of Directors is able to conclude that it has "Independent Directors" (having regard to Section A.3.1 of the United Kingdom's 2003 Combined Code on Corporate Governance, as the same may be amended from time to time, or any successor provision), it is the intention of the Board of Directors that any "transaction with a related party" by the Issuer or any of its consolidated subsidiaries with a value of more than €10 million shall require the affirmative vote of a majority of such Independent Directors. For these purposes, a "transaction with a related party" is defined by reference to Chapter 11 of the UKLA Listing Rules ("**Listing Rules**"), as amended, which currently defines such a transaction as (i) a transaction (other than a transaction of a revenue nature in the ordinary course of business) between a company, or any of its subsidiary undertakings, and a related party; (ii) any arrangements pursuant to which a company, or any of its subsidiary undertakings, and a related party each invests in, or provides finance to, another undertaking or asset; or (iii) a transaction (other than a transaction of a revenue nature in the ordinary course of business) between a company, or any of its subsidiary undertakings and any other person the purpose and effect of which is to benefit a related party. For the avoidance of doubt, any transaction between members of the group comprising the Issuer and its consolidated subsidiaries or any transaction between any member of such group and any other person who would be a related party only because of an interest held in that person through one or more members of such group is not considered a "transaction with a related party" pursuant to the resolution of the Board of Directors.

The Board of Directors has instructed consolidated subsidiaries of the Issuer that approval of the Board of Directors shall be required for any consolidated subsidiary of the Issuer to make any acquisition or disposal of assets or businesses valued at more than EUR 10 million other than in the ordinary course of business; to undertake any borrowings from, loans to or guarantees or the granting of security in respect of the financial obligations of or obligations owed to any third party, valued at more than EUR 10 million; and for any purchase or issuance of shares in any of the Issuer's consolidated subsidiaries. The Board of Directors resolved that the approval of the Board of Directors shall not be required for any transactions between members of the Issuer's consolidated group.

The Board of Directors has also established criteria by which to assess whether a director is an independent director with consideration of the character and judgment of each member of the Board of Directors and whether there are relationships or circumstances which are likely to affect, or could appear to affect, any member's judgment. If the Board of Directors determines that a director is independent

notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, the Board of Directors has resolved to state the basis for its conclusion, including if the director has been an employee of the Issuer's consolidated group within the last five years; has, or has had within the last three years, a material business relationship with the Issuer either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Issuer; has received or receives additional remuneration from the Issuer apart from a director's fee, participates in the Issuer's share option or a performance-related pay scheme, or is a member of the Issuer's pension scheme; has close family ties with any of the Issuer's advisers, directors or senior employees; holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; represents a significant shareholder; or has served on the board for more than nine years from the date of such director's first election.

At its meeting held on 7 April 2008, the Board of Directors has determined, in accordance with the foregoing procedures, that each of Messrs Adriaenssen, Grant and Rich is an independent director.

The Board of Directors may alter the foregoing procedures by passing an ordinary resolution, and the Issuer would expect to issue an explanatory press release if these procedures are altered in any material respect.

Nominations and Remuneration Committee

The Nominations and Remuneration Committee consists of Mr. Adriaenssen (the Chairman), Mr. Grant and Dr. Rich. The Nominations and Remuneration Committee is authorised to carry out its functions as well as any other functions as may, from time to time, be delegated to it by the Board of Directors. These responsibilities include consideration of the award of stock options to any member of the Board of Directors and all matters relating to the remuneration and benefits paid to all members of the Board of Directors, including the Chief Executive Officer, regardless of whether such remuneration or benefits is paid by the Issuer or by any other entity within the MHP group of companies. The Nominations and Remuneration Committee is also responsible for, among other things, reviewing the composition of the Issuer's Board of Directors and making recommendations to the Board of Directors with regard to any changes.

Decisions of the Nominations and Remuneration Committee are taken by a majority vote and, in the event of the equality of votes, the Chairman of the Nominations and Remuneration Committee has a casting vote.

Audit Committee

The Audit Committee consists of Mr. Grant (the Chairman), Ms. Kapelyushna and Dr. Rich. The Audit Committee is authorised to carry out its functions as may, from time to time, be delegated to it by the Board of Directors relating to such matters as the oversight of audit functions, financial reporting and internal control principles and the appointment, compensation, retention and oversight of the Issuer's independent auditors.

Decisions of the Audit Committee are taken by a majority vote and, in the event of the equality of votes, the Chairman of the Audit Committee has a casting vote.

Relationship Agreement

The Issuer entered into an agreement with WTI, the Issuer's controlling majority shareholder, and Mr. Kosyuk, WTI's sole beneficial shareholder (the "**Relationship Agreement**") on 9 May 2008. The Relationship Agreement provides that each of WTI and Mr. Kosyuk (together, the "**Majority Shareholders**") will, for as long as they continue to hold, directly or indirectly, at least 30% of the shares carrying voting rights in the Issuer, at all times:

- (a) refrain from exercising their voting rights, directly or indirectly, to elect any director of the Issuer if the election of such a person would have the result that the number of the members of the Board of Directors who are not independent of the Majority Shareholders will exceed the number of the members of the Board of Directors who are independent of the Majority Shareholders by more than one person unless such election is approved at a general meeting of the Issuer's shareholders;

- (b) subject to any duty of confidentiality owed to third parties, promptly provide to the Issuer any information in their possession or control which the Issuer reasonably requests in order to assess and meet its obligations under the Listing Rules and the laws of Luxembourg;
- (c) keep confidential and not use for their own benefit any confidential information relating to the Issuer or the MHP group to which they have been given access by reason of their interest in the share capital of the Issuer or any role as director of the Issuer;
- (d) exercise any of their voting rights so as to procure, insofar as they are able to do so by the exercise of voting rights attaching to the Shares, that:
 - (i) the Issuer and its subsidiaries are capable at all times of carrying on its business independently of the Majority Shareholders;
 - (ii) all transactions, agreements or arrangements entered into between a Majority Shareholder or any of their affiliates and the Issuer (or any subsidiary of the Issuer) are, and will be made, on an arm's length basis and on normal commercial terms (and that any transactions, agreements or arrangements (or series thereof) with a value of more than U.S.\$5 million are approved by the Independent Directors); and
 - (iii) no variations are made to the Issuer's articles of association that would be contrary to the Issuer's independence from the Majority Shareholders.

In addition, each Majority Shareholder has agreed that it shall not, from the date of the Relationship Agreement and till the date on which the Majority Shareholders (together with related parties) cease to hold, directly or indirectly, at least 50% of the shares carrying voting rights in the Issuer (the “**Restricted Period**”):

- (a) carry on, set up, be employed, engaged or interested in an agricultural or food production business in Ukraine which is or is about to be in competition with any business of the Issuer or any of its subsidiaries provided that, in the case of Mr. Kosyuk, his involvement in such a business is not considered by a majority of the independent directors to restrict, affect or otherwise interfere with the performance of his duties and obligations to the Issuer;
- (b) directly or indirectly engage in any activity which a majority of the independent directors reasonably consider may be, or become, harmful to the interests of the Issuer or any of its subsidiaries, or, in the case of Mr. Kosyuk, which might reasonably be considered to interfere with the performance of his duties and obligations under his employment agreement.

The Restricted Period shall be extended to the date falling three months after the date on which the Majority Shareholders (together with related parties) cease to hold, directly or indirectly, at least 30% of the shares covering voting rights in the Issuer provided that the approval of the Antimonopoly Committee of Ukraine (or a decision of the Antimonopoly Committee of Ukraine that no such approval is necessary) is obtained.

Each Majority Shareholder has further agreed that if he/it becomes aware of any potential investment opportunity in the agricultural industry in Ukraine, then he/it will disclose such opportunity to the Board of Directors immediately in writing. The Issuer may then investigate such investment opportunity, and each Majority Shareholder has agreed:

- (a) not to make or pursue such investment opportunity;
- (b) not to prevent or hinder any decision to be taken by the Board of Directors on whether or not to proceed with such investment opportunity; and
- (c) to fully co-operate with and assist the Issuer in any investigations it undertakes into such investment opportunity.

If the Issuer decides not to proceed with such investment opportunity, the Majority Shareholders have agreed not to pursue that investment opportunity without the written consent of a majority of the Independent Directors.

The Majority Shareholders have also undertaken that they will not sell, transfer, dispose of or otherwise deal with any right or interest in the Shares for so long as the Relationship Agreement is in effect except where:

- (a) such sale, transfer, disposal or dealing would not result in the transferee (together with its affiliates) holding directly or indirectly 25% or more of the Shares; or
- (b) the relevant Majority Shareholder first procures that the transferee executes a deed of adherence undertaking to be bound by the terms of the Relationship Agreement.

Additionally, each Majority Shareholder has acknowledged that information provided to them directly or through the Issuer may be unpublished, price sensitive information, and has undertaken to comply with any applicable laws, rules and regulations in relation to their dealings in the GDRs and Shares.

Remuneration of Directors and Management

Total compensation of MHP's key management personnel (excluding compensation to Mr. Kosyuk) included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to UAH 11.1 million (U.S.\$2.2 million), UAH 48.9 million (U.S.\$9.3 million) UAH 50.4 million (U.S.\$6.5 million), and for the years ended 31 December 2007, 2008 and 2009, respectively. Compensation to key management personnel consists of contractual salary and performance bonuses. Key management personnel totaled 29, 32 and 35 individuals as of 31 December 2007, 2008 and 2009, respectively.

The aggregate amount of remuneration paid by MHP by way of salary to the Chief Executive Officer, Mr. Kosyuk, during the years ended 31 December 2007, 2008 and 2009 was UAH 8.1 million (U.S.\$1.6), UAH 9.5 million (U.S.\$1.8 million) and UAH 14.2 million (U.S.\$1.8 million), respectively.

As of 31 December 2007, 2008 and 2009, Mr. and Mrs. Kosyuk received benefits in kind by use of certain assets with the carrying value of UAH 15.2 million (U.S.\$3.0 million), UAH 1.7 million (U.S.\$0.2 million) and UAH 2.3 million (U.S.\$0.3 million), respectively. Included in assets used by Mr. and Mrs. Kosyuk as of 31 December 2007 were vehicles with the carrying value of UAH 14.1 million (U.S.\$2.8 million).

The Board of Directors has adopted certain procedures relating to the approval of transactions with related parties, including requiring the approval of a majority of independent directors for any transactions exceeding €10 million in value. See "Directors, Corporate Governance and Management—Corporate Governance" for a discussion of these procedures. Significant transactions with related parties during the year ended 31 December 2007, 2008 and 2009 are set out in "Shareholders and Related Party Transactions—Related Party Transactions" below. MHP has had no significant related party transactions from 31 December 2009 to the date of this Offering Memorandum, other than continuations of the trading relationships described under "Shareholders and Related Party Transactions—Related Party Transactions—Past and Ongoing Transactions with Other Related Parties".

Litigation Statement about Directors and Officers

As of the date of this Offering Memorandum, no member of the Board of Directors or of MHP's senior management for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has 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

As of the date of this Offering Memorandum, neither the Issuer nor JSC 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. MHP is currently considering various compensation structures and may consider establishing such a plan and granting share options in the future.

Conflicts of Interests

Mr. Kosyuk has direct and indirect interests in companies with which MHP has engaged in transactions, including those in the ordinary course of business. As a result, potential conflicts of interests between his duties to the Issuer and private interests may arise or may have arisen. See “Shareholders and Related Party Transactions”.

Except as discussed immediately above, there is no actual or potential conflict of interests between the duties of any of the members of the Board of Directors to the Issuer and their respective private interests.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The table below sets forth certain information regarding ownership of the ordinary shares of the Issuer as of the date of this Offering Memorandum.

<u>Shareholder</u>	<u>Number of Shares</u>	<u>Percentage of Share Capital</u>
WTI Trading Limited 16-18 Zinas Kanther Street Limassol Cyprus	81,117,043	73.230%
Orr Group Limited 5 New Road P.O. Box 388, Belize City Belize Central America	1	—
BNY (Nominees) Limited 160 Queen Victoria Street London EC4V 4LA United Kingdom	29,646,033	26.760%
Morgan Stanley & Co International Plc 25 Cabot Square London E14 4QA United Kingdom	6,923	0.006%
Total	<u>110,770,000</u>	<u>100.000%</u>

Yuriy Kosyuk, the Issuer's Chief Executive Officer, owns 100% of the shares in WTI, which in turn directly owns 73.23% of the shares of the Issuer. One share is held by Orr Group Limited, as a nominee company of WTI. MHP understands that WTI has entered into various loan agreements with Morgan Stanley Bank International Limited ("MSBI") in connection with which WTI has pledged certain of its shares in the Issuer in favour of MSBI and has granted Morgan Stanley & Co International Plc ("MSI") various options to acquire shares in the Issuer from WTI. Certain of these options have been exercised and the exercise period for the remaining options has expired.

On 9 May 2008, MHP announced the Initial Public Offering ("IPO") of 21,500,000 ordinary shares in the form of 21,500,000 global depositary receipts ("GDRs") listed on the London Stock Exchange. As part of this offering, The Bank of New York was appointed as the depositary for the ordinary shares that were offered and for the issuance of the GDRs. Accordingly, at the time of the IPO 21,500,000 ordinary shares were registered in the name of BNY (Nominees) Limited. Subsequent to the IPO, additional shares have been exchanged for GDRs following the partial exercise of the call options in favour of MSI described above. As of the date of this Offering Memorandum, BNY (Nominees) Limited, as depositary for GDRs, owns 26.76% of the shares in the Issuer which are in turn represented by GDRs listed on the London Stock Exchange. In addition, MSI holds directly 0.006% of the shares in the Issuer pursuant to the partial exercise of the call options described above.

On 8 September 2009, the Board of Directors approved a share buy-back programme (the "Programme") to purchase up to 2,769,250 (not exceeding 2.5% of the issued share capital of MHP) of its fully paid up ordinary shares in the form of GDRs listed on the London Stock Exchange. MHP intended to use the shares so purchased for a proposed compensation and incentive programme with the remaining shares to be held as treasury shares pending their resale within the next three years. However, no shares or GDRs were purchased and at present MHP has no intention to continue with the Programme.

Oaks Estate S.A., a company owned by members of the family of Charles E. Adriaenssen, the non-executive chairman of the Issuer of which he is a director, beneficially owns 0.307% of the total issued share capital of the Issuer.

John Grant, a non-executive director of MHP, owns a total of 17,000 GDRs, representing 0.015% of the total issued share capital of MHP.

Mr. Kosyuk controls the Issuer. Except for the Relationship Agreement described in “Directors, Corporate Governance and Management—Board of Directors—Relationship Agreement” above, there are no arrangements in place which could result in a change of control. There are no arrangements between the shareholders or beneficial owners or any other party in relation to the control of the Issuer.

Save as disclosed above, there are no other persons who could, directly or indirectly, exercise control over the Issuer.

Save as disclosed in this section “Shareholders and Related Party Transactions”, none of the members of the Board of Directors had or has any interests in the shares or GDRs of the Issuer.

Save as disclosed in this section “Shareholders and Related Party Transactions”, none of the members of the Board of Directors had or has any interests in any transactions which are or which were unusual in their nature or conditions or significant to MHP’s business and which were effected by MHP during the current financial year or during the years ended 31 December 2007, 2008 and 2009 or during any previous financial year and which remain in any respect outstanding or unperformed.

None of the Issuer’s shareholders has voting rights different from any other holders of the Issuer’s shares.

Related Party Transactions

In the ordinary course of its business, MHP has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. Other than the transactions with entities under common control described herein, MHP did not engage in any transactions with members of the Board of Directors during the period under review. See Note 7 to the Audited Consolidated Financial Statements.

MHP seeks to conduct all transactions with entities under common control or otherwise related to it on market terms and in accordance with relevant Ukrainian legislation. The terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms.

The Board of Directors has adopted certain procedures relating to the approval of transactions with related parties, including requiring the approval of a majority of independent directors for any transactions exceeding €10 million in value. See “Directors, Corporate Governance and Management—Corporate Governance” for a discussion of these procedures.

Significant transactions with related parties during the year ended 31 December 2007, 2008 and 2009 are set out below. MHP has had no significant related party transactions during the period from 31 December 2009 to the date of this Offering Memorandum, other than continuations of the trading relationships described under “—Past and Ongoing Transactions with Other Related Parties”.

The following companies and individuals are considered to be related parties to the Group:

<u>Name of the related party</u>	<u>Nature of relations with the Group</u>
Mr. Yuriy Kosyuk	Chief Executive Officer of MHP and the Principal Shareholder of the Group
WTI	Immediate parent, company owned by Mr. Yuriy Kosyuk
Mrs. Olena Kosyuk	Wife of Mr. Yuriy Kosyuk
Allied tech LLP (United Kingdom) Allied Tech LLC (USA) Allied Tech Commerce LLP (United Kingdom) LLC Zolotoniske Zvirogospodarstvo ULL 15 (FÜNFZEHN) Beteiligungs und Management Roda Realizatsiyina Baza Merkaba LLC	Companies owned or controlled by Mr. Yuriy Kosyuk
Spector Agrofirma Berezanska Ptahofabryka	Companies owned by Merkaba LLC

In April 2007, Mr. Yuriy Kosyuk sold his shareholding in Roda. Accordingly, starting from June 2007 Roda and Realizatsiyina Baza ceased to be related parties to the Group. In October 2008 Allied Tech LLC (USA) was liquidated.

Past and Ongoing Transactions with Other Related Parties

Transactions with Mr. Kosyuk

As of 31 December 2009, Mr. Kosyuk (the Issuer's Chief Executive Officer) and Mrs. Kosyuk (Director of MHP's Food Technology, Quality and Safety Department) had aggregate interest-free short- and long-term loans outstanding from MHP with a carrying value of UAH 2.3 million (U.S.\$0.3 million). In addition, as a part of their compensation Mr. Kosyuk and Mrs. Kosyuk receive certain in kind benefits. See notes to the Audited Consolidated Financial Statements.

In June 2007, MHP sold to Mr. Kosyuk a building and adjacent land plot with net book value of UAH 17.5 million (U.S.\$3.5 million), which was used by Mr. Kosyuk as a benefit in kind, for a cash consideration of UAH 20.2 million (U.S.\$4.0 million).

In April 2007, MHP sold its participatory shareholding in ZZG a company owning a mink farm to Mr. Kosyuk for a cash consideration of UAH 24.2 million (U.S.\$4.8 million).

Loans and Benefits

JSC Agrofirma Berezanska Ptahofabryka. In the years ended 31 December 2007, 2008 and 2009, MHP provided short-term advances and finance aid to, and received promissory notes from, JSC Agrofirma Berezanska Ptahofabryka ("**Berezanska**"), which is controlled by Mr. Kosyuk. Berezanska is a chicken farm producing table eggs. Total balances owned by Berezanska amounted to UAH 2.1 million (U.S.\$0.4 million), UAH 5.2 million (U.S.\$0.7 million) and UAH 2.8 million (U.S.\$0.4 million) as at 31 December 2007, 2008 and 2009, respectively.

Spector. In the years ended 31 December 2007, 2008 and 2009, MHP provided short-term advances and finance aid to, and received promissory notes from, Spector, which is owned by Merkaba LLC, a company controlled by Mr. Kosyuk ("**Spector**"). Total balances of Spector amounted to UAH 3.3 million (U.S.\$0.7 million) and UAH 0.4 million (U.S.\$0.1 million) as at 31 December 2007 and 2009, respectively. In 2008, balances of short-term advances and finance aid to, and received promissory notes from, Spector were not significant.

Other related parties. In the years ended 31 December 2007, 2008 and 2009, MHP provided short-term advances and finance aid to, and received promissory notes from, other related parties. Total balances of other related parties amounted to UAH 1.8 million (U.S.\$0.4 million), UAH 2.2 million

(U.S.\$0.3 million) and UAH 5.3 million (U.S.\$0.7 million) as at 31 December 2007, 2008 and 2009, respectively.

Commercial Transactions

JSC Realizatsiyina Baza. In the year ended 31 December 2007, MHP purchased feed grains and leased storage premises from JSC Realizatsiyina Baza (“Realbaza”), which is controlled by Mr. Kosyuk through THR. Total purchases from Realbaza amounted to UAH 1.2 million (U.S.\$0.1 million) in 2009. Purchases from Realbaza in 2008 and 2007 were insignificant. Total sales to Realbaza in 2007, 2008 and 2009 were also insignificant.

JSC Agrofirma Berezanska Ptahofabryka. In the years ended 31 December 2007, 2008 and 2009, MHP purchased eggs from Berezanska. Total purchases from Berezanska amounted to UAH 1.8 million (U.S.\$0.4 million) and UAH 2.2 million (U.S.\$0.4 million) in 2007 and 2008 respectively. In 2009, total purchases from Berezanska were not significant. In addition, in the years ended 31 December 2007, 2008 and 2009, MHP sold mixed fodder and its components to Berezanska. Total sales to Berezanska amounted to UAH 42.6 million (U.S.\$8.4 million), UAH 50.7 million (U.S.\$9.6 million) and UAH 53.4 million (U.S.\$6.9 million) in 2007, 2008 and 2009, respectively. In 2007, MHP also sold to Berezanska certain equipment and vehicles for UAH 17.5 million (U.S.\$3.5 million).

Spector. In the years ended 31 December 2007, 2008 and 2009, MHP obtained design and speciality services from Spector. Total purchases from Spector amounted to UAH 7.8 million (U.S.\$1.5 million) and UAH 0.8 million (U.S.\$0.1 million) in 2008 and 2009, respectively. In 2007 total purchases from Spector were not significant.

Other related parties. In the years ended 31 December 2007, 2008 and 2009, MHP sold primarily poultry to other related parties. Total sales to other related parties amounted to UAH 0.6 million (U.S.\$0.1 million), UAH 3.0 million (U.S.\$0.6 million) and UAH 0.6 million (U.S.\$0.1 million) in 2007, 2008 and 2009 respectively.

Leases

As of 31 December 2007, 2008 and 2009, the Group leased property, plant and equipment with a carrying value of U.S.\$3.1 million, U.S.\$0.2 million and U.S.\$0.1 million, , respectively, to its related parties under operating lease arrangements.

For the years ended 31 December 2007 and 2008, lease payments received from the related parties under the operating lease agreements amounted to U.S.\$0.1million and U.S.\$0.1 million respectively. Lease payments received from the related parties in 2009 were insignificant.

DESCRIPTION OF OTHER INDEBTEDNESS

The Issuer has presented in this Offering Memorandum translations of some hryvnia amounts into U.S. dollars as set out in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Functional and Presentational Currency”. In addition, for the following section certain amounts in euro have been converted into hryvnia and/or U.S. dollars at the rates specified as set out in “Exchange Rate Information”. No representation is made that the hryvnia, euro or U.S. dollar amounts referred to herein could have been or could be converted into hryvnias, euros or U.S. dollars, as the case may be, at such rates, at any other particular rate or at all.

Commerzbank Secured Loan

In September 2005, MFC entered into a loan agreement with Commerzbank AG for a non-revolving credit facility for an amount of EUR 25.0 million (UAH 267 million) (U.S.\$34 million) (the “**Commerzbank Loan**”). In 2007, Commerzbank increased the aggregate amount of the loan facilities under the 2005 agreement to EUR 35.0 million. The amount outstanding under this facility as of 31 March 2010 was EUR 14 million (UAH 149 million) (U.S.\$19 million) with principal repayments due between 2010 and 2014. The principal under this facility is repayable in ten semi-annual equal instalments. Interest is payable on the amount outstanding during each interest period at a rate of EURIBOR plus 1.3%-1.3265% per annum.

JSC MHP, Peremoga, Druzhba Nova, Shahtarska, Oril Leader, and Starynska are sureties in respect of MFC’s obligations under the Commerzbank Loan.

MFC has pledged certain of its movable property to secure its obligations under long-term loans with Commerzbank. As of 31 December 2009, part of a U.S.\$10.0 million loan was secured with property, plant and equipment with an aggregate carrying value of U.S.\$5.8 million (UAH 46.4 million) pledged as collateral.

MFC has granted security in the form of a first ranking pledge of some of its movable property to secure its obligations under the Commerzbank Loan. As of 31 March 2010 the amount of collateral outstanding was EUR 7 million (UAH 75 million) (U.S.\$9 million).

The Commerzbank Loan contains covenants that restrict, amongst other things, MFC and each surety’s ability to: (i) create liens or grant pledges over their assets; (ii) sell, assign, lease or otherwise dispose of all or any substantial part of their assets; (iii) reorganise or merge with other entities; or (iv) acquire all or substantially all of the assets of another entity; (v) change their shareholder structures or (vi) incur or permit to subsist any financial indebtedness subject to certain exceptions; or (vii) create or permit to subsist any security interest over any of its assets subject to certain exceptions.

In connection with the issue of the Existing Notes in the 2006, Commerzbank AG granted a waiver to MHP in respect of the restriction on incurring additional debt and issuing guarantees and the covenants of the indenture governing the Existing Notes has been expressly incorporated into the Commerzbank Loan by Commerzbank granting such waiver. Pursuant to a further waiver dated 16 April 2010 the covenants of the indenture of the Existing Notes were replaced by the covenants applicable to the Notes.

The Commerzbank Loan contains events of default, including non-payment of principal or interest due under the facility; misrepresentation; certain insolvency and bankruptcy events; cessation of business operations, regulatory intervention or loss of material licenses or approvals; non-payment of other indebtedness of MFC; certain adverse events related to MFC or JSC MHP or certain of its subsidiaries; and material adverse change.

Rabobank Loan Facilities

During 2005, 2006, 2008 and 2009, JSC MHP and MFC entered into twelve unsecured loan facilities with Rabobank (the “**Rabobank Loan Facilities**”) for an aggregate amount of EUR 65 million (UAH 694 million) (U.S.\$88 million). As of 31 March 2010, the aggregate amount outstanding under these facilities was EUR 33.2 million. Principal payments are due under the Rabobank Loan Facilities between 2010 and 2016. The principal under this facility is repayable in ten semi-annual equal instalments. Interest is payable on the amount outstanding under the Rabobank Loan Facilities during each interest period at a rate of EURIBOR plus 0.6%-2.25% or fixed rate 4.76%-5.31% per annum. MFC, Merkaba, Peremoga, Druzhba Nova, Shahtarska, Oril Leader, Starynska and MHP S.A. are guarantors of JSC MHP and MFC’s obligations under the Rabobank Loan Facilities.

The Rabobank Loan Facilities contains covenants that restrict, amongst other things, MHP and each guarantor's ability to (i) sell, assign, lease or otherwise dispose of all or any substantial part of their assets; and (ii) merge, demerge or reorganise with any other corporation or acquire all or substantially all of the properties and assets of any other corporation, partnership or sole partnership. The Rabobank Loan Facilities dated 12 August 2008, 18 September 2008, 13 October 2008, 24 October 2008, 24 June 2009 incorporate the covenants of the indenture governing the Existing Notes.

The Rabobank Loan Facilities contain events of default, including non-payment of principal or interest thereunder; misrepresentation; certain insolvency and bankruptcy events; breach of covenants; cessation of business operations, regulatory intervention or loss of material licenses or approvals; expropriation; cross-default under other debt; adverse events related to the guarantees granted to Rabobank; certain adverse events related to MFC or JSC MHP or certain of its subsidiaries; and material adverse change.

Landesbank Loan

In 2008, JSC MHP entered into a loan facility agreement with Landesbank for an aggregate amount of EUR 8.7 million (UAH 93 million) (U.S.\$12 million) with the maturity dates between 2010 and 2018. As of 31 March 2010, the aggregate amount outstanding under this facility was EUR 8.7 million (UAH 93 million)(U.S.\$12 million) (the "**Landesbank Loan**"). The principal under this facility is payable in 17 semi-annual equal instalments. Interest is payable on the amount outstanding during each interest period at a rate of EURIBOR plus 1.45% per annum. MFC, MP, Peremoga, Druzhba Nova, Shahtarska, Oril Leader, Starynska, Katerynopilsky Elevator, Druzhba LLC, Zernoprodukt MHP and MHP S.A. are guarantors of JSC MHP's obligations under the Landesbank Loan.

The Landesbank Loan contains covenants that restrict, amongst other things, JSC MHP and each guarantor's ability to (i) sell, assign, lease or otherwise dispose of all or any substantial part of their assets; (ii) increase the ratio of consolidated Indebtedness to EBITDA above 3.5; (iii) create liens or grant pledges over their assets and (iv) enter into contracts with affiliates for the acquisition, sale or any disposal of any services, commodities or any assets, unless the price to be paid is the price that would be paid in arm's length transaction.

The Landesbank Loan contains events of default, including non-payment of principal or interest thereunder; misrepresentation; certain insolvency and bankruptcy events; breach of covenants; cessation of business operations, regulatory intervention or loss of material licenses or approvals; expropriation; cross-default under other debt and change in the majority shareholder.

ING Loan Facilities

In July 2008, JSC MHP and Druzhba Nova entered into a revolving multicurrency facility agreement with ING Bank (Ukraine) in an amount of U.S.\$25.0 million (UAH 198 million) (the "**ING Loan**"). This facility was originally available until October 2009 but was extended to 29 October 2010. The indebtedness is to be repaid in full by 29 October 2010 in installments from 1 August to 29 October 2010. As of 31 March 2010 the indebtedness under this facility was U.S.\$14 million and UAH 80 million (UAH 191 million in aggregate). The interest rate payable is the prevailing inter-bank interest rate plus 6% per annum for loans denominated in UAH and LIBOR plus 6% per annum for loans denominated in EUR and USD.

In addition, in July 2008 JSC MHP and Myronivka entered into a U.S.\$35.0 million (UAH 277 million) revolving committed credit facility agreement with ING Bank (Ukraine) (the "**ING Revolving Facility**", and together with the ING Loan, the "**ING Loan Facilities**"). The indebtedness is to be repaid in full in installments from 30 June 2010 to 30 September 2010. As of 31 March 2010, the indebtedness under this facility was U.S.\$35.0 million (UAH 277 million). The interest rate payable is the prevailing inter-bank interest rate plus 4.35% per annum for loans denominated in UAH and LIBOR plus 4.35% per annum for loans denominated in EUR and USD.

The ING Loan Facilities contain covenants that restrict, amongst other things, the Borrower's and each guarantor's ability to (i) create liens or grant pledges over their assets; (ii) increase the ratio of consolidated indebtedness to equity ratio above 1.8; (iii) ensure the Consolidated Leverage Ratio as defined in the Offering Memorandum; (iv) grant liens and encumbrances established by Offering Memorandum. The ING Loan Facilities contains events of default, including non-payment of principal or interest thereunder; misrepresentation; breach of covenants; cross-default under other debt; insolvency and insolvency proceedings; and material adverse change. The ING Loan Facilities contains events of

default, including non-payment of principal or interest thereunder; misrepresentation; breach of covenants; cross-default under other debt; insolvency and insolvency proceedings; and material adverse change.

OTP Loan Facility

In February 2010, JSC MHP and Oril Leader entered into a credit facility with OTP Bank (Ukraine) for U.S.\$20.0 million maturing in December 2010. As of 31 March 2010, the indebtedness under this facility was U.S.\$9.0 million (UAH 71 million). The interest rate under the OTP Loan is LIBOR plus 13% per annum.

In March 2010, JSC MHP, Oril Leader, MFC, Peremoga, Druzhba Nova, Katerynopilsky Elevator entered into a credit facility with OTP Bank (Ukraine) for U.S.\$3.0 million maturing in December 2010. As of 31 March 2010, there is no indebtedness under this facility. The interest rate under the OTP Loan is LIBOR plus 13% per annum.

Unicredit

In June 2008, JSC MHP, MFC, Shakhtarska, Starynska and Katerynopilsky Elevator entered into a credit facility agreement with Unicredit for EUR 1.0 million maturing on 31 July 2010. As of 31 March 2010, there is no indebtedness under this facility. The interest rate under the Unicredit loan is LIBOR plus 4% per annum.

In July 2009, JSC MHP, Peremoga, and Druzhba Nova entered into a credit facility agreement with Unicredit for U.S.\$30.0 million (UAH 240 million) maturing on 20 July 2010. The indebtedness will be repaid in three equal installments beginning 1 May 2010. As of 31 March 2010 the indebtedness under this facility was U.S.\$30.0 million and UAH 80 million (UAH 238 million in aggregate). The interest rate under the Unicredit loan is LIBOR plus 12% per annum.

Universalbank

In October 2009, JSC MHP entered into a credit facility agreement with Universalbank for U.S.\$7.5 million (UAH 60 million) maturing on 29 January 2010. In January 2010, the maturity was extended to 1 March 2010. In February 2010, the maturity was extended to 31 October 2011 and the amount of the facility was increased to U.S.\$15.0 million. The indebtedness will be repaid in monthly equal installments beginning 30 November 2010. As of 31 March 2010, the indebtedness under this facility was U.S.\$15 million (UAH 119 million). The interest rate under Universalbank loan is LIBOR plus 12.3% per annum.

Vendor Financing and Capital Leases

In each of 2007, 2008 and 2009 MHP purchased trucks, equipment and agricultural machinery for its breeding farms, chicken farms, fodder production facilities and grain production facilities partially financed through loans and leases with certain vendors, including Scania Credit AB, Zeppelin, Big Dutchman, Case, Massey Ferguson, MTZ and various leasing companies. As of 31 December 2009 the aggregate amount outstanding under these agreements (excluding capital leases) including the amount of other short-term payables for property plant and equipment was approximately U.S.\$6.3 million. In addition, the amount of MHP's capital lease obligations as of 31 December 2009 was U.S.\$69.0 million. The weighted average interest rate on MHP's capital lease obligations was 8.6% and 7.8% for payables denominated in Euro and U.S. dollar, respectively, as of 31 December 2009.

Existing Notes

In November of 2006, the Issuer issued U.S.\$250 million of 10.25% Senior Notes due 2011. See “—Liquidity and Capital Resources—Capital Resources.”

DESCRIPTION OF NOTES

Definitions of certain terms used in this description are set forth under the subheading “—Certain Definitions”. In this description, the word “MHP” refers only to MHP S.A. and not to any of its subsidiaries and “Guarantee” means a surety under Ukrainian law.

MHP will issue the Notes under an indenture dated the Issue Date (the “**Indenture**”) among itself, Deutsche Bank Trust Company Americas as Note Security Agent, and Deutsche Bank Trust Company Americas as Trustee, in private transactions that are not subject to the registration requirements of the U.S. Securities Act. See “Notice to Investors”. The Notes are being offered in the Offering and the Exchange Offer and may be offered as Additional Notes from time to time as described below.

The following description is a summary of the material provisions of the Notes, the Guarantees, the Indenture and the Proceeds Loan Assignments. It does not restate those agreements in their entirety. Prospective investors should read the Indenture (including the form of Notes and the form of Suretyship Agreement attached to the Indenture) and the Proceeds Loan Assignments because they, and not this description, will define the rights of holders of the Notes (“**Holders**”). Copies of the Indenture, the Guarantees, and the Proceeds Loan Assignments are available as set forth below under “—Additional Information”. Certain capitalised terms used in this description but not defined below under “—Certain Definitions” have the meanings assigned to them in the Indenture.

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

Listing of the Notes

Application has been made to admit the Notes to the Official List for trading on the Regulated Market of the London Stock Exchange.

Brief Description of the Notes and the Guarantees

The Notes

The Notes will:

- be general obligations of MHP;
- rank *pari passu* in right of payment to all existing and future senior unsecured Indebtedness of MHP;
- be senior in right of payment to all existing and future Indebtedness of MHP that is expressly subordinated to the Notes;
- be effectively subordinated to all existing and future secured Indebtedness of MHP and the Guarantors (as defined below) to the extent of the assets securing such Indebtedness;
- be structurally subordinated to all existing and future Indebtedness of Subsidiaries of MHP that are not Guarantors;
- be guaranteed by each Guarantor on a senior unsecured basis; and
- be secured by a first-ranking assignment of the Proceeds Loans (except to the extent described under “Security—Proceeds Loan Assignment”).

all as described below.

The Guarantees

The Notes will be jointly and severally guaranteed by each of JSC MHP, Peremoga, Druzhba Nova, Oril Leader, MFC, Zernoproduct, Druzhba, Myronivka, Katerynopilsky Elevator, Starynska and Shahtarska (each a “**Guarantor**” and collectively the “**Guarantors**”) on the terms set out in the Suretyship Agreement.

The guarantees (each a “**Guarantee**”) of the Notes by each Guarantor will:

- be a general obligation of that Guarantor; and

- rank *pari passu* in right of payment to all existing and future senior unsecured Indebtedness of that Guarantor.

As of 31 December 2009, after giving *pro forma* effect to the Offering, and the proposed repayment of certain Indebtedness as set forth in “Use of Proceeds”, (i) the Issuer would have had no Indebtedness other than the Notes, (ii) the Notes (including the Guarantees thereof) would rank *pari passu* with approximately U.S.\$85.8 million of unsecured Indebtedness of the Guarantors (other than the Guarantees), all of which would have consisted of bank borrowings that would rank *pari passu* with the Notes, (iii) the Guarantors would have had approximately U.S.\$10 million of bank borrowings that were secured and would be effectively senior to the Notes and (iv) Subsidiaries that are not Guarantors would not have had any bank borrowings. In addition, at 31 December 2009, there was approximately U.S.\$69 million of capital leases and U.S.\$6.3 million of vendor financing that would effectively rank senior to the Notes and Guarantees.

As of the Issue Date, all of MHP’s subsidiaries will be “Restricted Subsidiaries”. However, under the circumstances described below under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries”, MHP will be permitted to designate certain of its subsidiaries as “Unrestricted Subsidiaries”. Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture and will not guarantee the Notes. As of the date of this Offering Memorandum MHP has no Unrestricted Subsidiaries.

Ranking of the Notes and the Guarantees

MHP is a holding company with no independent operations, and all of its operations are conducted through its Subsidiaries. MHP’s ability to service the Notes is dependent, *inter alia*, upon the earnings of its Subsidiaries, the ability of its Subsidiaries to distribute those earnings to MHP by way of dividends, distributions, interest, returns on investments (including repayment of loans) or other payments, and the ability of Eledem and the respective Guarantors that are party to the Proceeds Loans (who will be co-obligors under the Proceeds Loans) to make payments due on the Proceeds Loans. Claims of creditors of MHP’s Subsidiaries that are not Guarantors, including trade creditors and creditors holding indebtedness or guarantees issued by such entities and claims of holders of any priority or preference equity interests of such entities, generally will have priority with respect to the assets and earnings of such entities over the claims of MHP’s creditors, including the Holders of the Notes. Accordingly, although the Notes will be senior obligations of MHP and the Guarantees will be senior obligations of the Guarantors, the Notes and the Guarantees will be structurally subordinated to creditors (including trade creditors) and holders of any priority or preference equity interests, if any, of MHP’s Subsidiaries that are not Guarantors. In the event of a liquidation, winding up, administration, reorganisation or any other insolvency of these companies or of any non-Guarantor subsidiaries, the non-Guarantor subsidiaries will pay the holders of their debt, their trade creditors and any preference shareholders before they will be able to distribute any of their assets to MHP or another Guarantor.

Principal, Maturity and Interest

MHP will issue U.S.\$330,000,000 in aggregate principal amount of Notes in the Offering and up to U.S.\$266 million aggregate principal amount of Notes in the Exchange Offer. MHP may issue Additional Notes, including the Exchange Notes, under the Indenture from time to time including at the same time or after this Offering. Any issuance of Additional Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”. The Notes and Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. MHP will issue Notes in denominations of U.S.\$100,000 principal amount and integral multiples of U.S.\$1,000 above U.S.\$100,000. The Notes will mature on 29 April 2015.

Interest on the Notes will accrue at the rate of 10.25% per annum and will be payable semi-annually in arrears on 29 April and 29 October, commencing on 29 October 2010. MHP will make each interest payment to the Holders of record on the immediately preceding 14 April and 14 October, respectively.

Interest on the Notes will accrue from (and including) 29 April 2010 or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

If the due date for any payment in respect of any Note is not a business day at the place in which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding business day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

In addition, MHP will not permit any of its Restricted Subsidiaries that is not a Guarantor to guarantee any Indebtedness unless such Restricted Subsidiary simultaneously jointly and severally guarantees the Notes pursuant to a supplemental Suretyship Agreement or other documentation to such effect.

Guarantees

The Notes will be jointly and severally guaranteed by each of the Guarantors. The ranking of the Guarantees are as set forth above under “—Ranking of the Notes and the Guarantees”.

The Guarantees will constitute suretyships under Ukrainian law and will be governed by a separate Suretyship Agreement dated the date of the Indenture. Payment of amounts due under the Guarantees will require compliance with certain Ukrainian currency control regulations. See “Risk Factors—Risks Related to the Notes and the Trading Market—The Guarantees will constitute suretyships under Ukrainian law and could be challenged” and “Risk Factors—Risks Related to the Notes and the Trading Market—Ukrainian currency control regulations may impact the Guarantors’ ability to make payments under the Guarantors’ Proceeds Loans and under the Guarantees”.

Additional Guarantees

MHP may from time to time designate a Restricted Subsidiary as an additional guarantor of the Notes (an “**Additional Guarantor**”) by causing it to execute and deliver to the Trustee a supplement to the Suretyship Agreement (and with an opinion of counsel addressed to the Trustee as to the enforceability of its Guarantee), pursuant to which such Restricted Subsidiary will become a Guarantor. MHP will be required to designate as an Additional Guarantor any Restricted Subsidiary whose assets, at the end of any fiscal quarter, determined on an unconsolidated basis in accordance with GAAP account for more than 10% of MHP’s total assets determined on a consolidated basis in accordance with GAAP.

Any Additional Guarantee shall be issued on substantially the same terms as the Guarantees. For purposes of the Indenture and this “Description of Notes”, references to the Guarantees include references to any Additional Guarantees and references to the Guarantors include references to any Additional Guarantors.

Release of the Guarantees

The Indenture and the Suretyship Agreement will provide that a Guarantee and any related Security in favour of the Holders of the Notes securing such Guarantee shall be released, automatically and without further action on the part of any Holder of the Notes or the Trustee:

- (1) in the event that such Guarantor is disposed of in a manner which is permitted by the Indenture (provided that, in any event, the disposal is not made to a Restricted Subsidiary) and the proceeds of such disposal are applied for a purpose permitted by the Indenture;
- (2) upon legal defeasance or covenant defeasance of the Notes;
- (3) when MHP designates such Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture; or
- (4) the liquidation of such Guarantor in accordance with the Indenture.

The Trustee will take all necessary actions to effect any release in accordance with these provisions, subject to customary protections and indemnifications.

Proceeds Loans

Pursuant to proceeds loan agreements to be entered into on the Issue Date (the “**New Proceeds Loans**”), the Issuer will on-lend the gross proceeds from the issue and sale of the New Notes and certain other amounts equaling the amount by which the aggregate principal amount of the Exchange Notes exceeds the aggregate principal amount of the Existing Notes exchanged (the “**Exchange Premium Amount**”) to Eledem and Eledem will on-lend such amount to the Guarantors, as co-obligors. Pursuant to

amendments to the proceeds loans relating to the Existing Notes (the “**Amended Existing Proceeds Loans**” and, together with the New Proceeds Loans, the “**Proceeds Loans**”), the terms of the existing proceeds loans will be amended to the extent necessary to conform to the payment terms of the Exchange Notes. The Guarantors that are party to the Proceeds Loans, as co-obligors, will be jointly and severally liable for the payment of all amounts due to Eledem under their Proceeds Loans. Interest on the Proceeds Loans will have a maximum interest rate of 11%, the maximum amount currently permitted by the NBU. Regularly accruing interest on the Proceeds Loans will be payable semi-annually not less than two business days and not more than five business days before each interest payment date in respect of the Notes. The Proceeds Loans will be senior obligations that will rank *pari passu* in right of payment to all existing and future unsecured Indebtedness of Eledem and each of the Guarantors, respectively. The Guarantors’ payments under the Proceeds Loan with Eledem may be subject to Ukrainian withholding tax under certain circumstances and may be restricted or limited by certain Ukrainian laws and regulations. See “Risk Factors—Risks Relating to the Notes and the Trading Market”.

Security

Proceeds Loan Assignments

MHP’s obligations under the Notes and the Indenture will be secured by a first-ranking assignment of MHP’s and Eledem’s rights as lenders under their respective Proceeds Loans (the “**Proceeds Loan Assignments**”). The Proceeds Loan Assignments will be granted in favour of the Note Security Agent on a first-ranking basis. Such assignments of the Proceeds Loans shall be released upon the full repayment and cancellation of the Proceeds Loans. The Proceeds Loan Assignments will be shared on an equal and rateable basis with the holders of the Existing Notes and the Holders of the Notes will share in the assignments of the Amended Existing Proceeds Loans on an equal and rateable basis.

In the event the Issuer issues Capital Markets Debt or Additional Notes and the proceeds thereof are loaned by the Issuer to Eledem and on-loaned by Eledem to the Guarantors pursuant to proceeds loans that satisfy the requirements of the definition of Permitted Proceeds Loans in the Indenture, the holders of such debt or notes will be Permitted Security Beneficiaries of the Proceeds Loans and Holders of the Notes will be beneficiaries of such Permitted Proceeds Loans and all such holders, including the holders of the Existing Notes if the requisite consents are received, will share in the assignments of such Proceeds Loans on an equal and rateable basis.

Upon any realisation upon the Security Interest, a Holder, holder of Existing Notes or Permitted Security Beneficiary (each a “**Secured Party**”) shall only be entitled to receive its pro rata share of any enforcement proceeds based on the proportion of the principal and unpaid interest balance owed to it to the total principal and unpaid interest balance owed to all enforcing Secured Parties and in no event shall any Secured Party be entitled to receive enforcement proceeds in excess of the principal and unpaid interest owed to it.

Note Security Agent

Deutsche Bank Trust Company Americas will act as Note Security Agent under the Proceeds Loan Assignments and the Indenture until such time, if any, that a new Note Security Agent is appointed under the provisions of the relevant agreement.

Redemption

Optional Redemption

At any time prior to 29 April 2013, upon not less than 30 nor more than 60 days notice, MHP may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of Notes issued under the Indenture at a redemption price of 110.25% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that:

- (1) at least 65% of the aggregate principal amount of the Notes (excluding Notes held by MHP and its Affiliates) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

At any time prior to the maturity date of the Notes, upon not less than 30 nor more than 60 days’ notice, MHP may at its option redeem the Notes in whole at any time or in part from time to time, at a

redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, plus accrued and unpaid interest and Additional Amounts, if any, to, the date of redemption, subject to the rights of the Holders of the Notes on the relevant record date to receive the interest due on the relevant interest payment date.

Tax Redemption

MHP may, at its option, redeem all (but not less than all) of the Notes then outstanding at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption, if MHP or a Guarantor has become, or would become, after taking reasonable measures, if any, available to it to avoid it, obliged to pay, on the next date on which any amount would be payable with respect to the Notes or a Guarantee, any Additional Amounts as a result of any change in laws or treaties (including any regulations promulgated thereunder) or in any interpretation, administration or application regarding such laws, treaties or regulations, if such change is announced and becomes effective on or after the Issue Date. Notice of any such redemption must be given within 60 days of the effectiveness of any such change.

Mandatory Redemption

MHP is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) if MHP certifies to the Trustee that the Notes are listed on any securities or investment exchange, in compliance with the requirements of the principal securities or investment exchange on which the Notes are so listed; or
- (2) if MHP certifies to the Trustee that the Notes are not listed on any securities or investment exchange or if the relevant securities or investment exchange has no requirement in that regard, on a pro rata basis, by lot or by such method as the Trustee in its discretion deems fair and appropriate.

Notes of U.S.\$100,000 may only be redeemed in whole and not in part. In no event shall a redemption of Notes result in a Note in a principal amount of U.S.\$100,000 or less. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. In relation to Notes in definitive registered form, a new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption, unless MHP defaults in the payment of the redemption price.

Open Market Purchases

MHP may at any time and from time to time purchase Notes in the open market or otherwise. MHP is not obligated to cancel any Notes so purchased, although they may not be reissued and will not be deemed outstanding for purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase.

Additional Amounts

All payments made by MHP and the Guarantors under or with respect to the Notes and the Guarantees will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment, or other governmental charge of whatever nature

(including penalties, interest and other liabilities related thereto) (collectively, “**Taxes**”) imposed or levied by or on behalf of any government or political subdivision or territory or possession of any government or authority or agency or authority therein or thereof having the power to tax (each, a “**Taxing Authority**”) in any jurisdiction in which MHP or any Guarantor (including their permitted successors and assigns) is then incorporated, engaged in business or resident for tax purposes or any jurisdiction by or through which payment is made (each, a “**Relevant Taxing Jurisdiction**”) unless MHP or the Guarantor is required to withhold or deduct Taxes by law or by the relevant Taxing Authority’s interpretation or administration thereof.

If MHP or the Guarantor is required to withhold or deduct any amount for or on account of Taxes from any payment made under or with respect to the Notes or the Guarantees (as the case may be), MHP or the Guarantors (as the case may be) will pay such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amount received by each Holder of the Notes (including Additional Amounts) after such withholding or deduction will be equal to the amount the Holder of the Notes would have received if such Taxes had not been withheld or deducted; provided that no Additional Amounts will be payable with respect to a payment made to a Holder of the Notes to the extent:

- (1) any such Taxes would not have been imposed but for the existence of any present or former connection between such Holder of the Notes (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder, if the relevant Holder is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction imposing such Taxes otherwise than merely by the acquisition, ownership or disposition of such Note or receiving any payment in respect thereof or the exercise or enforcement of any rights under the Notes or the Guarantees; or
- (2) such Holder of the Notes would not have been liable for or subject to such withholding or deduction on account of such Taxes but for the failure to make a valid declaration of non-residence or similar claim for exemption or to provide information concerning nationality, residence or connection with the Relevant Taxing Jurisdiction if the making of such declaration or claim or provision of such information is required or imposed by statute, treaty, regulation, ruling or administrative practice of a Taxing Authority of the Relevant Taxing Jurisdiction as a precondition to an exemption from, or reduction in, such Taxes (including, without limitation, a certificate that the Holder is not resident in the Relevant Taxing Jurisdiction); or
- (3) such Holder of the Notes would have been able to avoid such Taxes by presenting the relevant note to another paying agent in a Member State (as constituted on the Issue Date) or in the United States; or
- (4) any such Taxes would not have been imposed but for the presentation by the Holder of such note (where presentation is required) for payment on a date more than 30 days after the date on which such payment became due or payable or was duly provided for, whichever is later; or
- (5) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (6) of any combination of the immediately preceding clauses (1) to (5) (inclusive).

In addition, Additional Amounts will not be payable with respect to any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge with respect to such Notes or with respect to any Tax which is payable otherwise than by deduction or withholding from payments of principal of, premium or discount, if any, or interest on the Notes.

MHP or the Guarantors (as the case may be) will also:

- (1) make any required withholding or deduction; and
- (2) remit the full amount deducted or withheld to the relevant Taxing Authority in accordance with applicable Law.

MHP or the Guarantors (as the case may be) will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Taxing Authority imposing such Taxes. MHP or the Guarantors (as the case may be) will use reasonable efforts to furnish to

the Holders of the Notes (with a copy to the Trustee), within 30 days after the date the payment of any Taxes so deducted or withheld is due pursuant to applicable Law, either certified copies of tax receipts evidencing such payment by MHP or the Guarantors (as the case may be) or, if such receipts are not obtainable, other evidence of such payments by MHP or the Guarantors (as the case may be).

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case promptly thereafter), if MHP or the Guarantors (as the case may be) will be obliged to pay Additional Amounts with respect to such payment, MHP or the Guarantors (as the case may be) will deliver to the Trustee and the Paying Agent an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent on behalf of the Trustee to pay such Additional Amounts to the Holders on the payment date.

Whenever in this "Description of Notes" section there is mentioned, in any context, the payment of amounts based upon the principal, premium, interest or any other amount payable under or with respect to any of the Notes, this includes payment of any Additional Amounts that may be applicable.

MHP or the Guarantors (as the case may be) will pay any stamp, transfer, court or documentary taxes, or any other excise or property taxes, charges or similar levies which arise from the original execution, delivery or registration of the Notes, the initial resale thereof by UBS Limited, Morgan Stanley & Co. International Limited, ING Bank N.V., London branch, and Renaissance Securities (Cyprus) Limited (the "**Initial Purchasers**") and the enforcement of the Notes, the Guarantees or the Proceeds Loan Assignments following the occurrence of any Event of Default with respect to the Notes.

The foregoing provisions will survive any termination, defeasance or discharge of the Notes and shall apply *mutatis mutandis* to any jurisdiction in which any successor Person to MHP or a Guarantor, as the case may be, is organised, engaged in business, resident for tax purposes, or otherwise subject to taxation on a net income basis or any political subdivisions or taxing authority or agency thereof or therein.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each Holder of Notes will have the right to require MHP to repurchase all or any part (equal to U.S.\$1,000 or an integral multiple of U.S.\$1,000 provided that a Note of U.S.\$100,000 or less may only be redeemed in whole and not in part) of that Holder's Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, MHP will offer a payment ("**Change of Control Payment**") in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased, to the date of purchase, subject to the rights of Holders on the relevant record date to receive interest due on the relevant interest payment date. Within 30 business days following any Change of Control, MHP will mail a notice to the Trustee and each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the date specified in the notice ("**Change of Control Payment Date**"), which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. MHP will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other securities laws and regulations and stock exchange rules to the extent those laws, regulations and rules are applicable in connection with the repurchase of the Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations or stock exchange rules conflict with the Change of Control provisions of the Indenture, MHP will comply with the applicable laws, regulations and rules, and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such compliance.

Future Indebtedness of MHP may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or may require such Indebtedness to be repurchased upon a change of control (as defined in the instruments governing such Indebtedness). Moreover, the exercise by the Holders of their right to require MHP to repurchase the Notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on MHP.

If a Change of Control Offer is made, there can be no assurance that MHP will have available funds sufficient to pay for all of the Notes that might be delivered by holders of Notes seeking to accept the

Change of Control Offer. MHP's obligation to make a Change of Control Offer following a Change of Control shall be satisfied if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements applicable to a Change of Control Offer made by MHP and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. See "Risk Factors—MHP may not be able to finance a change of control offer required by the Indenture".

On the Change of Control Payment Date, MHP will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by MHP.

The Paying Agent will promptly mail to each Holder of Notes properly tendered the Change of Control Payment for such Notes, in respect of Global Notes, make such notations thereon as are necessary to reflect the Notes (or interests therein) purchased in such Change of Control Offer and, in respect of Notes in definitive registered form, cause to be authenticated and mailed to each Holder a new note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each new Note or Notes will be in a principal amount of U.S.\$100,000 or an integral multiple of U.S.\$1,000 above U.S.\$100,000 and the Holder has tendered its old definitive registered note for cancellation.

MHP will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require MHP to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders of the Notes to require that MHP or any of its subsidiaries or Affiliates repurchase or redeem the Notes in the event of a takeover, recapitalisation or similar transaction.

MHP will not be required to make a Change of Control Offer upon a Change of Control if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by MHP and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer or (ii) notice of redemption has been given pursuant to the Indenture as described above under the caption "—Redemption—Optional Redemption", unless and until there is a default in payment of the applicable redemption price.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of MHP and MHP's Subsidiaries, taken as a whole. Although there is a limited body of U.S. state case law interpreting the phrase "substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require MHP to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of MHP and its Subsidiaries taken as a whole to another person or group may be uncertain.

Asset Sales

MHP will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) MHP (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

- (2) at least 75% of the consideration received in the Asset Sale by MHP or such Restricted Subsidiary is in the form of cash, Cash Equivalents or Additional Assets. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the most recent consolidated balance sheet, of MHP or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Guarantee or the Proceeds Loan) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases MHP or such Restricted Subsidiary from liability in respect of those liabilities; and
 - (b) any securities, notes or other obligations received by MHP or any such Restricted Subsidiary from such transferee that are converted by MHP or such Restricted Subsidiary into cash or Cash Equivalents within 60 days, to the extent of the cash or Cash Equivalents received in that conversion.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale to be applied as set out in this paragraph, MHP (or the applicable Restricted Subsidiary, as the case may be) may apply those Net Proceeds, at its option:

- (1) to acquire or invest in all or substantially all of the assets of, or any Share Capital of, a Permitted Business if, after giving effect to any such acquisition of Share Capital, the Permitted Business is or becomes a Restricted Subsidiary of MHP;
- (2) to permanently reduce Indebtedness under Credit Facilities which Indebtedness ranks senior in right of payment to the Notes and/or the Guarantees or, to the extent that the assets or shares disposed of pursuant to such Asset Sale were subject to a Lien, to prepay, repay, redeem or repurchase Indebtedness of MHP or a Restricted Subsidiary that is secured by such assets or shares;
- (3) to acquire or invest in other assets that are not classified as current assets under GAAP and that are used or useful in a Permitted Business; or
- (4) a combination of prepayment and investment permitted by the foregoing clauses (1) through (3)

provided, however, that any such acquisition or investment made pursuant to the foregoing clauses (1) or (3) that is made pursuant to a definitive agreement or a commitment approved by the Board of Directors of MHP that is executed or approved within such time will satisfy this requirement, so long as such acquisition or investment is consummated within six months of such 365th day.

Pending the final application of any Net Proceeds, MHP may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute “**Excess Proceeds**”. On the 366th day after an Asset Sale (or such later date as is contemplated by the provision to the second preceding paragraph), if the aggregate amount of Excess Proceeds exceeds U.S.\$15.0 million, MHP will make an offer to all Holders of Notes and all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds (“**Asset Sale Offer**”). The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, MHP and its Restricted Subsidiaries may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee will select the Notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis; provided that Notes of U.S.\$100,000 or less may only be purchased in whole and not in part. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

MHP will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other securities laws and regulations and stock exchange rules, to the extent those laws, regulations and rules are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations or securities or investment exchange rules conflict with the Asset Sale provisions of the Indenture, MHP will comply with the applicable laws, regulations and

rules and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such conflict.

Certain Covenants

The Indenture will contain, among others, the following covenants:

Limitation on Restricted Payments

MHP will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of MHP's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other business combination involving MHP or any of its Restricted Subsidiaries) or to the direct or indirect holders of MHP's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than (A) dividends or distributions payable in Equity Interests (other than Disqualified Shares) or in options, warrants or other right to acquire Equity Interests (other than Disqualified Shares), (B) dividends or distributions payable solely to MHP or a Wholly-Owned Restricted Subsidiary and (C) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly-Owned Restricted Subsidiary to minority shareholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation) or such dividends or distributions on a basis that results in MHP or a Restricted Subsidiary receiving dividends or other distributions of greater value than would result on a pro rata basis);
- (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other business combination involving MHP) any Equity Interests of MHP or any direct or indirect parent of MHP, in each case held by Persons other than MHP;
- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of MHP or any Restricted Subsidiary that is contractually subordinated to the Notes, any Guarantee or the Proceeds Loans (excluding any intercompany Indebtedness between or among MHP and any of its Restricted Subsidiaries or between Restricted Subsidiaries), except a payment of interest or principal no more than 90 days prior to the original Stated Maturity thereof and except the purchase, redemption, defeasance, acquisition or retirement of subordinated obligations purchased in anticipation of satisfying a sinking-fund obligation, principal instalment or final maturity of such subordinated obligations, in each case due within 360 days of the date of such purchase, redemption, defeasance, acquisition or retirement; or
- (4) make any Restricted Investment;

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "**Restricted Payments**"), unless, at the time of and after giving effect to such Restricted Payment:

- (a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment; and
- (b) MHP would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least U.S.\$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption "**—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares**"; and
- (c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by MHP and its Restricted Subsidiaries (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6) and (7) of the next succeeding paragraph) since the Existing Notes Issue Date does not exceed the sum, without duplication, of:
 - (i) 50% of the Consolidated Net Income of MHP for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the Existing

Notes Issue Date to the end of MHP's most recently ended fiscal quarter for which publicly available financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

- (ii) 100% of the aggregate net cash proceeds received by MHP since the Existing Notes Issue Date (i) as a contribution to its ordinary equity capital, (ii) from the issue or sale or exercise of Equity Interests of MHP (other than Disqualified Shares and other than the proceeds received from the May 2008 flotation of the Issuer), (iii) from the issue or sale of convertible or exchangeable Disqualified Shares or convertible or exchangeable debt securities of MHP that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Shares or debt securities) sold to a Subsidiary of MHP) or (iv) from the issue of Indebtedness of MHP or a Restricted Subsidiary for cash since the Existing Notes Issue Date that has been converted into or exchanged for such Equity Interests (other than Disqualified Shares); *plus*
- (iii) an amount equal to the aggregate net reduction in Restricted Investments (other than any such Restricted Investment made pursuant to paragraphs (1) to (10) of the next succeeding paragraph) made after the Existing Note Issue Date by MHP or any Restricted Subsidiary and resulting from the repurchase, repayment or redemption of such Restricted Investments for cash, or from cash proceeds realised on the sale of all or part of such Investment or representing a return of capital (excluding dividends) with respect thereto; *provided, however*, that the foregoing net reduction shall not exceed the amount (in respect of any Person) of the Restricted Investment previously made (and treated as a Restricted Payment) by MHP or any Restricted Subsidiary in such Person; *plus*
- (iv) to the extent that any Unrestricted Subsidiary of MHP designated as such after the Existing Notes Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, the lesser of (i) the Fair Market Value of MHP's Investment in such Subsidiary as of the date of such redesignation or (ii) the sum of (A) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the Existing Notes Issue Date and (B) the amount of any subsequent Investment by MHP and its Restricted Subsidiaries in such Unrestricted Subsidiary made (and treated as a Restricted Payment) after the Existing Notes Issue Date and the original date of designation.

On the Issue Date, the above net income basket will include all amounts accruing under clauses (i) through (iv) above since the Existing Notes Issue Date.

The preceding provisions will not prohibit:

- (1) the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the Indenture;
- (2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of MHP) of, Equity Interests of MHP (other than Disqualified Shares) or from the substantially concurrent contribution of ordinary equity capital to MHP; provided that the amount of any such net cash proceeds that are utilised for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;
- (3) the defeasance, redemption, repurchase or other acquisition of Indebtedness of MHP or any Restricted Subsidiary that is contractually subordinated to the Notes, any Guarantee or the Proceeds Loans with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;
- (4) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of MHP to the holders of such Restricted Subsidiary's ordinary Equity Interests on a pro rata basis;
- (5) the repurchase of Equity Interests deemed to occur upon the exercise of stock options or warrants to the extent such Equity Interests represent a portion of the exercise price of such stock options or warrants;

- (6) the repurchase, redemption, or other acquisition for value of Share Capital of MHP or any Restricted Subsidiary of MHP representing fractional shares of such Share Capital in connection with a share dividend, distribution, share split, reverse share split, merger, consolidation, amalgamation or other business combination of MHP or such Restricted Subsidiary, in each case, permitted under the Indenture;
- (7) so long as no Event of Default or Default has occurred and is continuing and no Default or Event of Default would be caused thereby, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Shares of MHP issued on or after the Issue Date in accordance with the Consolidated Leverage Ratio described below under the caption “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”;
- (8) payments or distributions to dissenting shareholders pursuant to applicable law in connection with or contemplation of a merger, consolidation or transfer of assets;
- (9) the purchase, redemption or other acquisition of Equity Interests of MHP or any of its Subsidiaries from employees, former employees, directors or former directors of MHP or any of its Subsidiaries (or any of their respective permitted transferees) pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell such Equity Interests in an amount of up to U.S.\$1.0 million in any fiscal year; or
- (10) so long as no Event of Default or Default has occurred and is continuing and no Default or Event of Default would be caused thereby, other Restricted Payments in an aggregate amount not to exceed U.S.\$10.0 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by MHP or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this covenant will be determined in good faith by the Board of Directors whose resolution with respect thereto will be delivered to the Trustee along with an Officer’s Certificate setting forth the Fair Market Value. The Board of Directors’ determination must be based upon an opinion or appraisal issued by a Qualified Expert if the estimated Fair Market Value thereof exceeds U.S.\$7.5 million.

Limitation on Incurrence of Indebtedness and Issuance of Preference Shares

MHP will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, “**incur**”) any Indebtedness (including Acquired Debt), and MHP will not issue any Disqualified Shares and will not permit any of its Restricted Subsidiaries to issue any preference shares; provided, however, that MHP may incur Indebtedness or issue Disqualified Shares and any Guarantor may incur Indebtedness (including Acquired Debt), if the Consolidated Leverage Ratio on the date of such incurrence or issue and after giving *pro forma* effect to such incurrence or issue (including *pro forma* application of the net proceeds therefrom) as if it had been incurred at the beginning of the most recent four consecutive fiscal quarters for which financial statements are publicly available (or are made available) would have been no more than 2.5 to 1.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, “**Permitted Debt**”):

- (1) the incurrence by MHP and its Restricted Subsidiaries of Indebtedness for working capital purposes under or in the form of one or more Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with Credit Facilities being deemed to have a principal amount equal to the maximum potential liability of MHP and its Restricted Subsidiaries thereunder) not to exceed U.S.\$10.0 million;
- (2) the incurrence by MHP and its Restricted Subsidiaries of Existing Indebtedness (other than Indebtedness described in clauses (1) and (3) of this paragraph);
- (3) the incurrence by MHP and the Guarantors of Indebtedness represented by the Notes, the related Guarantees and the Proceeds Loans (for the avoidance of doubt, no Additional Notes may be issued in reliance on this clause (3));

- (4) the incurrence by MHP or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of MHP or any of its Restricted Subsidiaries, whether through the direct purchase of assets or the ordinary shares of any Person owning such assets (including any Indebtedness deemed to be incurred in connection with such purchase), in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed U.S.\$25.0 million at any time outstanding;
- (5) the incurrence by MHP or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance, replace, defease or discharge Indebtedness (other than intercompany Indebtedness (provided that the Proceeds Loan may only be refunded or refinanced to the extent required in connection with any permitted refinancing of the Notes)) that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (5) or (13) of this paragraph; provided that neither MHP nor any of its Restricted Subsidiaries may rely on this clause (5) to refund, refinance, replace, defease or discharge Indebtedness under a Credit Facility that is in existence on the Issue Date;
- (6) the incurrence by MHP or any of its Restricted Subsidiaries of Indebtedness between or among MHP and any of its Restricted Subsidiaries; provided, however, that:
 - (a) if MHP or any Guarantor is the obligor on such Indebtedness and the payee is not MHP or a Guarantor, such Indebtedness must be expressly subordinated in right of payment to the prior payment in full in cash of all Obligations with respect to the Notes, in the case of MHP, or the Guarantees, in the case of a Guarantor; and
 - (b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than MHP or a Restricted Subsidiary of MHP and (ii) any sale or other transfer of any such Indebtedness to a Person that is neither MHP nor a Restricted Subsidiary of MHP will be deemed, in each case, to constitute an incurrence of such Indebtedness by MHP or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the incurrence by MHP or any of its Restricted Subsidiaries of Hedging Obligations (A) for the purpose of fixing or hedging interest rate risk with respect to or in connection with any Indebtedness that is permitted by the terms of the Indenture to be outstanding or (B) for the purpose of fixing or hedging currency exchange rate risk or changes in the prices of commodities and, in each case, not entered into for speculative purposes and including any such Hedging Obligations incurred in connection with the issuance of the Notes;
- (8) the guarantee by MHP or any of its Restricted Subsidiaries (other than MHP) of Indebtedness of MHP or a Restricted Subsidiary of MHP that was permitted to be incurred by another provision of this covenant; provided that if the Indebtedness being guaranteed is subordinated in right of payment to the Notes or the Guarantees thereof, then such guarantee shall be subordinated to the same extent as the Indebtedness guaranteed;
- (9) the incurrence by MHP or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance and surety bonds or similar obligations in the ordinary course of business (including guarantees or indemnities related thereto);
- (10) the incurrence by MHP or any of its Restricted Subsidiaries of Indebtedness arising from the honouring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five business days;
- (11) Indebtedness of MHP and its Restricted Subsidiaries consisting of customer deposits or advance or extended payment terms in the ordinary course of business;
- (12) the incurrence by MHP or any of its Restricted Subsidiaries of Indebtedness arising from agreements of MHP or a Restricted Subsidiary providing for indemnification, adjustment of

purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Share Capital of a Subsidiary, other than guarantees of Indebtedness of the Subsidiary disposed of, or incurred or assumed by any Person acquiring all or any portion of such business, assets or Share Capital for the purpose of financing such acquisition; provided that the maximum liability of MHP and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value) actually received by MHP and its Restricted Subsidiaries in connection with such disposition;

- (13) the incurrence or acquisition by MHP or any of its Restricted Subsidiaries of Indebtedness, Disqualified Shares or preference shares of Persons that are acquired by MHP or any of its Restricted Subsidiaries or merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) MHP or any of its Restricted Subsidiaries in accordance with the terms of the Indenture; provided that such Indebtedness, Disqualified Shares or preference shares are not incurred or issued in connection with such acquisition, merger, consolidation, amalgamation or other combination, and, after giving effect to such acquisition, merger, consolidation, amalgamation or other combination MHP or such Restricted Subsidiary would be permitted to incur at least U.S.\$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first sentence of this covenant;
- (14) the incurrence by MHP or any of its Restricted Subsidiaries of Indebtedness under trade credit facilities to finance the acquisition and processing of sunflower seeds and the distribution and sale of sunflower oil, not to exceed U.S.\$50.0 million at any time outstanding; and
- (15) the incurrence by MHP and any Guarantor of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (15), not to exceed U.S.\$15.0 million at any time outstanding.

MHP will not incur, and will not permit, Eledem or any Guarantor to incur, any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other indebtedness of MHP, Eledem or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Proceeds Loan or the applicable Guarantee on substantially identical terms; provided, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of MHP, Eledem or such Guarantor solely by virtue of being unsecured or by virtue of being secured on a junior Lien basis or by virtue of not being guaranteed. For purposes of determining compliance with this covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (15) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, MHP, in its sole discretion, will be permitted to classify, and from time to time to reclassify, such item of Indebtedness (or any portion thereof) in any manner that complies with this covenant. Notwithstanding the foregoing sentence, Indebtedness under Credit Facilities outstanding on the Issue Date used to fund working capital will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt and shall not constitute "Existing Indebtedness" incurred in reliance on the exception provided by clause (2) of the definition of Permitted Debt and may not be reclassified pursuant to the first sentence of this paragraph. The accrual of interest, the accretion or amortisation of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Shares in the form of additional shares of the same class of Disqualified Shares will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Shares for purposes of this covenant. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that MHP or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

- (2) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
 - (a) the Fair Market Value of such asset at the date of determination; and
 - (b) the amount of the Indebtedness of the other Person;
- (3) the greater of the liquidation preference or the maximum fixed redemption or repurchase price of the Disqualified Shares, in the case of Disqualified Shares;
- (4) the Attributable Debt related thereto, in the case of any lease that is part of a sale and leaseback transaction; and
- (5) the principal amount of the Indebtedness, in the case of any other Indebtedness.

For purposes of the foregoing, the “maximum fixed repurchase price” of any Disqualified Shares that do not have a fixed redemption or repurchase price shall be calculated in accordance with the terms of such Disqualified Shares as if such Disqualified Shares were redeemed or repurchased on any date of determination.

Limitation on Liens

MHP will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien (other than Permitted Liens) of any kind on any asset now owned or hereafter acquired, *provided, however*, that MHP or any Guarantor may, directly or indirectly, create, incur, assume or suffer to exist any Lien:

- (1) to secure Indebtedness that is *pari passu* with the Notes or a Guarantor’s Guarantee of the Notes; *provided that* all Obligations under the Notes or the Guarantee, as the case may be, are secured on an equal and ratable basis with the Indebtedness so secured, and
- (2) to secure Indebtedness that is expressly subordinated to the Notes or a Guarantor’s Guarantee of the Notes, provided that all Obligations under the Notes or the Guarantee, as the case may be, are secured on a senior basis to the Indebtedness so secured.

Any such Lien in favour of the Trustee, the Note Security Agent and the Holders of the Notes will be automatically and unconditionally released and discharged concurrently with (i) the unconditional release of the Lien which gave rise to the Lien in favour of the Trustee, the Note Security Agent and the Holders of the Notes (other than as a consequence of an enforcement action with respect to the assets subject to such Lien), (ii) upon the full and final payment of all amounts payable by MHP and the Guarantors under the Notes, the Indenture and the Guarantees or (iii) upon legal defeasance or satisfaction and discharge of the Notes as provided below under the captions “—Legal Defeasance and Covenant Defeasance” and “—Satisfaction and Discharge”.

Limitations on Dividends and Other Payment Restrictions Affecting Subsidiaries

MHP will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Share Capital to MHP or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits; or
- (2) pay any indebtedness owed to MHP or any of its Restricted Subsidiaries (including, without limitation, pursuant to the Proceeds Loans); or
- (3) make loans or advances to MHP or any of its Restricted Subsidiaries; or
- (4) transfer any of its properties or assets to MHP or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) the Indenture, the Notes (including any Additional Notes), the Guarantees and the Proceeds Loan Assignments;
- (2) any applicable law, rule, regulation or order;
- (3) any encumbrance or restriction pursuant to an agreement in effect on or entered into on the Issue Date;
- (4) any instrument governing Indebtedness of a Person acquired by MHP or any of its Restricted Subsidiaries, as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided that*, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;
- (5) customary non-assignment provisions in leases, security agreements, contracts and licenses entered into in the ordinary course of business;
- (6) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (4) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the sale or other disposition;
- (8) Permitted Refinancing Indebtedness permitted to be incurred under clause (5) of the second paragraph of “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”; *provided* that the restrictions and encumbrances contained in the agreements governing such Permitted Refinancing Indebtedness are either (i) no more restrictive or (ii) not materially less favourable to the Holders of the Notes and/or the Proceeds Loan, in each case, taken as a whole and determined in good faith by the Board of Directors, than the dividend and other payment restrictions contained in the Indebtedness being refinanced;
- (9) Liens permitted to be incurred under the provisions of the covenant described above under the caption “—Certain Covenants—Limitation on Liens” that limit the right of the debtor to dispose of the assets subject to such Liens;
- (10) customary provisions limiting the disposition or distribution of Share Capital, assets or property in merger agreements, asset sale agreements, sale-leaseback agreements, share sale agreements and other similar agreements entered into with the approval of the Board of Directors, which limitation is applicable only to the Share Capital, assets or property that are the subject of such agreements;
- (11) customary provisions limiting the distribution or disposition of assets or property of a Restricted Subsidiary in joint venture agreements entered into in the ordinary course of business;
- (12) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and
- (13) any encumbrance or restriction applicable to a Restricted Subsidiary at the time it becomes a Restricted Subsidiary that is not created in contemplation thereof; *provided* that such restriction apply only to such Restricted Subsidiary and *provided further* that the exception provided by this clause (13) shall not apply to any encumbrance or restriction contained in any Indebtedness that refunds, refinances, replaces, defeases or discharges any Indebtedness which was in existence at the time such Restricted Subsidiary became a Restricted Subsidiary.

Merger, Consolidation or Sale of Assets

MHP may not, directly or indirectly, (i) merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not MHP is the surviving corporation); or (ii) sell, assign, transfer, convey

or otherwise dispose of all or substantially all of the properties or assets of MHP and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to another Person; unless:

- (1) either (a) MHP is the surviving corporation or (b) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than MHP) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organised or existing under the laws of any Member State as of 1 January 2006, Ukraine, Cyprus, Switzerland or any state of the United States or the District of Columbia;
- (2) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than MHP) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of MHP under the Notes, the Indenture, the relevant Proceeds Loan Assignment, the relevant Proceeds Loan, any other instrument creating a Security Interest to which MHP is a party pursuant to a supplemental indenture and any other documents to such effect delivered to the Trustee and the Note Security Agent;
- (3) immediately after such transaction, MHP or such surviving Person certifies to the Trustee that no Default or Event of Default exists; and
- (4) MHP or the Person (as applicable) formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than MHP), or to which such sale, assignment, transfer, conveyance or other disposition has been made:
 - (a) will, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least U.S.\$1.00 of additional Indebtedness pursuant to the Consolidated Leverage Ratio test set forth in the first paragraph of the covenant described above under the caption “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”;
 - (b) will (either directly or through its Restricted Subsidiaries), on the date of such transaction after giving effect thereto, retain all licenses and other authorisations reasonably required to operate its business as it was conducted prior to such transaction; and
 - (c) furnishes to the Trustee an Officer’s Certificate and an Opinion of counsel providing that the transaction complies with the Indenture.

In addition, MHP may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person.

A Guarantor may not:

- (1) directly or indirectly consolidate or merge with or into another Person (whether or not such Guarantor is the surviving corporation); or
- (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its assets, taken as a whole, in one or more related transactions, to another Person; unless
 - (a) immediately after such transaction, MHP or such surviving Person certifies to the Trustee that no Default or Event of Default exists; and
 - (b) either:
 - (i) (A) such Guarantor is the surviving corporation; or (B) the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or to which such sale, assignment, transfer, conveyance or other distribution has been made is a corporation organised or existing under the laws of any Member State as of 1 January 2006, Ukraine, Cyprus, Switzerland or any state of the United States or the District of Columbia, and immediately after such transaction, the surviving corporation assumes all the obligations of that Guarantor under the Indenture and the Suretyship Agreement and its guarantee pursuant to the Suretyship Agreement to such effect delivered to the Trustee, along with an opinion of counsel and an Officer’s Certificate providing that the transaction complies with the Indenture and the Suretyship Agreement; or

- (ii) in the case of the sale or disposition of all or substantially all of the assets of such Guarantor, the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

This “Merger, Consolidation or Sale of Assets” covenant will not apply to (i) a merger between or among MHP and any of its Restricted Subsidiaries, (ii) between or among any Guarantors or (iii) a merger of MHP with an Affiliate solely for the purpose of reincorporating MHP in another jurisdiction.

Transactions with Affiliates

MHP will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of MHP (each, an “**Affiliate Transaction**”), unless:

- (1) the Affiliate Transaction is on terms that are no less favourable to MHP or the relevant Restricted Subsidiary than those that that could be obtained at the time of such transaction in arm’s-length dealings in a comparable transaction with a Person that is not such an Affiliate; and
- (2) MHP delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.\$5.0 million, a resolution of MHP’s Board of Directors set forth in an Officer’s Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors (or, in the event there is only one disinterested member of the Board of Directors, approved by such disinterested member); and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.\$10.0 million, an opinion as to the fairness to MHP or such Subsidiary of such Affiliate Transaction from a financial point of view issued by a Qualified Expert.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any employment agreement, consulting agreement, employee benefit plan, officer and director indemnification agreement or any similar arrangement entered into by MHP or any of its Restricted Subsidiaries in the ordinary course of business and compensation (including bonuses and equity compensation) paid to and other benefits (including retirement, health and other benefit plans) and indemnification arrangements provided on behalf of directors, officers, consultants and employees of MHP or any Restricted Subsidiary;
- (2) transactions between or among or solely for the benefit of MHP and/or its Restricted Subsidiaries;
- (3) transactions with a Person (other than an Unrestricted Subsidiary of MHP) that is an Affiliate of MHP solely because MHP owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;
- (4) payment of reasonable directors’ fees to Persons who are not otherwise Affiliates of MHP;
- (5) any issuance of Equity Interests (other than Disqualified Shares) of MHP to Affiliates of MHP or the receipt of capital contributions by MHP from Affiliates of MHP;
- (6) Restricted Payments that do not violate the provisions of the Indenture described above under the caption “—Certain Covenants—Limitation on Restricted Payments” or Permitted Investments;
- (7) loans or advances or guarantees of third party loans to employees in the ordinary course of business not to exceed U.S.\$5.0 million in the aggregate at any one time outstanding (not including loans, advances or guarantees granted to employees prior to the Issue Date);
- (8) the entering into of a tax sharing agreement, or payments pursuant thereto, between MHP and/or one or more Subsidiaries, on the one hand, and any other Person with which MHP of such

Subsidiaries are required or permitted to file a consolidated tax return or with which MHP or such Subsidiaries are part of a consolidated group for tax purposes, on the other hand, *provided* that any payments by MHP and the Restricted Subsidiaries required under such agreement are not in excess of the tax liabilities that would have been payable by them on a stand-alone basis;

- (9) the granting and performance of registration rights with the U.S. Securities and Exchange Commission for securities of MHP, Eledem or JSC MHP; and
- (10) agreements and arrangements, and transactions pursuant thereto, existing on the date of the Indenture and any amendment, extension, renewal, refinancing, modification or supplement thereof; provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are no less favourable to MHP and the Restricted Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the date of this Indenture.

Business Activities

MHP will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Permitted Business, except to such extent as would not be material to MHP and its Restricted Subsidiaries, taken as a whole.

The Issuer will own directly or indirectly 100% of the issued and outstanding Share Capital of Eledem. Eledem shall not engage in any business activity or undertake any other activity, except any activity:

- (1) of the type undertaken as of the Issue Date;
- (2) undertaken in its capacity as a borrower under the Proceeds Loans or any Permitted Proceeds Loan with MHP, as a lender under the Proceeds Loans or any Permitted Proceeds Loans with the Guarantors and as a party to the relevant Proceeds Loan Assignment Agreements; and
- (3) activities reasonably related to the activities described in clauses (1) and (2), including the refinancing of any Proceeds Loan or Permitted Proceeds Loan.

Additional Guarantees

The Indenture will provide that:

- (1) MHP will not permit any of its Restricted Subsidiaries that is not a Guarantor to guarantee any Indebtedness unless such Restricted Subsidiary simultaneously jointly and severally guarantees the Notes pursuant to a supplemental Suretyship Agreement or other documentation to such effect (an “**Additional Guarantee**”) delivered to the Trustee; and
- (2) if the total assets of any Restricted Subsidiary of MHP that is not a Guarantor, then determined on an unconsolidated basis in accordance with GAAP as of the end of any fiscal quarter, accounts for 10% or more of MHP’s total assets determined on a consolidated basis in accordance with GAAP as of the end of such fiscal quarter, then the relevant Restricted Subsidiary will jointly and severally guarantee the Notes pursuant to an Additional Guarantee delivered to the Trustee;

provided, in the case of each of (1) and (2) above, that (i) a Restricted Subsidiary’s Guarantee may be limited to the extent required by law and (ii) for so long as it is not permissible under applicable law for a Restricted Subsidiary to become a Guarantor, such Restricted Subsidiary need not become a Guarantor (but, in such a case, each of MHP and its Restricted Subsidiaries will use their best efforts to overcome the relevant legal prohibition precluding the giving of the Guarantee). For the avoidance of doubt, the requirement in clause (1) above will not be applicable to any guarantees of Indebtedness by any Restricted Subsidiary existing on the date of the Indenture. At the time of execution of any Additional Guarantee, MHP shall deliver an opinion of counsel addressed to the Trustee as to the enforceability of the Guarantee and certain other matters set out in the Indenture.

If the Indebtedness of MHP or the Guarantor giving rise to the need to guarantee the Notes:

- (1) ranks *pari passu* in right of payment to the Notes or the Guarantees of the Notes, any guarantee of such Indebtedness will rank *pari passu* in right of payment to the Notes or the relevant Guarantee of the Notes; or

- (2) is contractually subordinated in right of payment to the Notes or the Guarantees of the Notes, any guarantee of such Indebtedness shall be contractually subordinated in right of payment to the Notes or the relevant Guarantee of the Notes substantially to the same extent as such Indebtedness is subordinated in right of payment to the Notes or the Guarantees.

Until all amounts which may be or become payable by MHP and the Guarantors under the Notes have been irrevocably paid in full and to the extent lawful, each such guarantee will provide that the Guarantor waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against MHP or any Restricted Subsidiary of MHP as a result of any payment by such Guarantor under its Guarantee.

Each such Guarantee will be released under the circumstances set out above under “—Guarantees”.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of MHP may designate any Restricted Subsidiary (including any newly acquired or newly formed Subsidiaries) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by MHP and its Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption “—Certain Covenants—Limitation on Restricted Payments” or under one or more clauses of the definition of Permitted Investments, as determined by MHP. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of MHP may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of MHP as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee on the effective date of such designation a certified copy of the Board Resolution giving effect to such designation and an Officer’s Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption “—Certain Covenants—Limitation on Restricted Payments”. If, at any time, any Unrestricted Subsidiary would fail to meet the requirements of being an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of MHP as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”, MHP will be in default of such covenant.

The Board of Directors of MHP may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of MHP of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”, calculated on a *pro forma* basis as if such designation had occurred at the beginning of the four-quarter reference period and (2) no Default or Event of Default would be in existence following such designation.

Sale and Leaseback Transactions

MHP will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that MHP or any other Guarantor may enter into a sale and leaseback transaction if:

- (1) MHP or that Guarantor, as applicable, could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Consolidated Leverage Ratio test in the first paragraph of the covenant described above under the caption “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “—Certain Covenants—Limitation on Liens;”

- (2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value of the property that is the subject of that sale and leaseback transaction; and
- (3) the transfer of assets in that sale and leaseback transaction is permitted by, and MHP or that Guarantor applies the net proceeds of such transaction in compliance with, the covenant described above under the caption “—Repurchase at the Option of Holders—Asset Sales”.

Payments for Consent

MHP will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Impairment of Security Interest

MHP shall not, and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the Security Interest with respect to the Security (it being understood that the incurrence of Permitted Liens (including amendments to the Proceeds Loan Assignments to effect or facilitate the same) and amendments to the Proceeds Loan Assignments to permit the assignment of the Security Interests on an equal and rateable basis to Permitted Security Beneficiaries shall under no circumstances be deemed to materially impair the Security Interest with respect to the Security) for the benefit of the Trustee and the Holders, and MHP shall not, and shall not permit any Restricted Subsidiary to, grant to any Person other than the Note Security Agent, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Proceeds Loan Assignments, any interest whatsoever in any of the Security, except that (i) MHP or any Restricted Subsidiaries may incur Permitted Liens, (ii) the Security Interests may be discharged and/or released and retaken in accordance with the Indenture in order to facilitate the granting of any such Permitted Lien and (iii) the Security Interests may be assigned for the benefit of Permitted Security Beneficiaries. The Note Security Agent is authorized to enter into amendments to the Proceeds Loan Assignments to permit the assignment of the Security Interests on an equal and rateable basis to Permitted Security Beneficiaries.

Reports

MHP will provide to the Trustee and the Holders of the Notes and shall make available to potential investors:

- (1) within 150 days after the end of MHP’s fiscal year consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for MHP and its Subsidiaries for the most recent three fiscal years prepared in accordance with GAAP, together with a report thereon by MHP’s certified independent accountants, information with respect to any Change of Control that has occurred in the fiscal year and information with respect to any acquisition or disposition representing greater than 20% of the consolidated revenues, EBITDA or assets of MHP on a *pro forma* basis, including a *pro forma* income statement and balance sheet for the acquisition or disposition (*provided* that an acquisition or disposition that has occurred fewer than 60 days prior to the date of the annual report shall be reported upon in the next quarterly report);
- (2) within 180 days after the end of MHP’s fiscal year, for such fiscal year and two prior fiscal years, information substantially similar in scope to the information about MHP and its Subsidiaries included in this Offering Memorandum under (A) the subheadings “—External Factors Affecting MHP’s Results of Operations” and “—Liquidity and Capital Resources” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and (B) “Shareholders and Related Party Transactions—Related Party Transactions”;
- (3) within 90 days after the end of each of the first three fiscal quarters in each fiscal year of MHP, unaudited consolidated income statements, balance sheets and cash flow statements of MHP for such interim periods prepared in accordance with GAAP and information with respect to any Change of Control that has occurred in the fiscal quarter; and

- (4) information with respect to any change in the independent accountants of MHP, and any resignation of a member of the Board of Directors of MHP as a result of a disagreement with MHP.

If MHP has designated any of its Subsidiaries as Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries constitute Significant Subsidiaries of MHP, then the annual and quarterly information required by provisions (1) and (2) of this covenant shall include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto of the financial condition and results of operations of MHP and its Restricted Subsidiaries separate from the financial condition and results of operations of such Unrestricted Subsidiaries of MHP.

In addition, so long as the Notes remain outstanding and during any period during which MHP is not subject to Section 13 or 15(d) of the U.S. Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b) of such Act, MHP shall furnish to the holders of the Notes (with a copy to the Trustee) and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

Contemporaneously with the provision of each report discussed above, MHP will also file a press release with the appropriate internationally recognised wire services with respect to such report and post such press release on MHP's website.

Events of Default and Remedies

Each of the following is an Event of Default:

- (1) default for 30 days in the payment when due of interest on, or Additional Amounts with respect to, the Notes;
- (2) default in payment when due of the principal of, or premium, on the Notes;
- (3) failure by MHP or any of its Restricted Subsidiaries to comply with the provisions described under the caption “—Certain Covenants—Merger, Consolidation or Sale of Assets;”
- (4) failure by MHP or any of its Restricted Subsidiaries to comply for 30 days after written notice with its obligation to repurchase Notes as described under “—Repurchase at the Option of Holders—Change of Control” or any of its obligations in the covenants described under “—Certain Covenants”;
- (5) failure by MHP or any of its Restricted Subsidiaries for 60 days after written notice by the Trustee or the Holders of not less than 25% of the aggregate principal amount of the Notes then outstanding to comply with any of the other agreements in the Indenture, the Guarantees, the Suretyship Agreement, the Proceeds Loan Assignments or the Proceeds Loans;
- (6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by MHP or any of its Restricted Subsidiaries (or the payment of which is guaranteed by MHP or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, if that default:
 - (a) is caused by a failure to pay principal, interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a “**Payment Default**”); or
 - (b) results in the acceleration of such Indebtedness prior to its express maturity,and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates U.S.\$10.0 million or more;
- (7) failure by MHP or any of its Restricted Subsidiaries to pay final judgments not subject to appeal aggregating in excess of U.S.\$10.0 million, which judgments are not paid, discharged, waived or stayed for a period of 60 days;
- (8) the repudiation by MHP or any of its Restricted Subsidiaries in writing of any of its obligations under the Proceeds Loan Assignments, or the unenforceability of the Proceeds Loan

Assignments or such charge against MHP or any of its Restricted Subsidiaries as the case may be for any reason;

- (9) except as permitted by the Indenture or the Suretyship Agreement, any Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, shall deny or disaffirm in writing its obligations under its Guarantee;
- (10) any Proceeds Loan ceases to be in full force and effect (other than in accordance with the terms of such Proceeds Loan) or is declared fully or partially void in a judicial proceeding or Eledem or any Guarantor asserts in writing that the applicable Proceeds Loan is fully or partially invalid; or
- (11) certain events of bankruptcy or insolvency described in the Indenture with respect to MHP, any Guarantor or any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to MHP, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may, upon written notice to MHP, declare all the Notes to be due and payable immediately.

Holders of the Notes may not enforce the Indenture, the Notes, the Guarantees or the Proceeds Loan Assignments except as provided in the Indenture or the Suretyship Agreement. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power, subject to indemnity or other security satisfactory to the Trustee being provided. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding such notice is in their interest, except a Default or Event of Default relating to the payment of principal or interest or Additional Amounts and agree that the Trustee shall incur no liability for so doing.

The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may, on behalf of the Holders of all of the Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Event of Default in the payment of interest or Additional Amounts on, or the principal of, the Notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture or the Suretyship Agreement at the request or direction of any Holders of Notes unless such Holders have offered to the Trustee indemnity or security satisfactory to it against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder of a note may pursue any remedy with respect to the Indenture or the Notes unless:

- (1) such Holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) Holders of at least 25% in aggregate principal amount of the outstanding Notes have requested in writing the Trustee to pursue the remedy;
- (3) such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and
- (5) Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

MHP is required to deliver to the Trustee annually a statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, MHP is required to deliver to the Trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or shareholder of MHP or any Guarantor, as such, will have any liability for any obligations of MHP or the Guarantors under the Notes, the Indenture, the Guarantees, the Proceeds Loan Assignments or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the U.S. federal securities laws.

Legal Defeasance and Covenant Defeasance

MHP may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Guarantees (“**Legal Defeasance**”) except for:

- (1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium and Additional Amounts, if any, on such Notes when such payments are due from the trust referred to below;
- (2) MHP’s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the Trustee, and MHP’s and the Guarantor’s obligations in connection therewith;
- (4) the provisions relating to Additional Amounts; and
- (5) the Legal Defeasance provisions of the Indenture.

In addition, MHP may, at its option and at any time, elect to have the obligations of MHP and the Guarantors released with respect to certain covenants (including MHP’s obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture (“**Covenant Defeasance**”) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under “—Events of Default and Remedies” will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) MHP must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash, non-callable Government Securities, or a combination of cash and non-callable Government Securities, denominated in U.S. dollars in amounts as will be sufficient, in the opinion of a nationally recognised investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium, if any, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and MHP must specify whether the Notes are being defeased to maturity or to a particular redemption date;
- (2) in the case of Legal Defeasance, MHP has delivered (a) to the Trustee an opinion of U.S. counsel addressed to the Trustee, confirming that (I) MHP has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (II) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the Holders of the outstanding Notes will not recognise income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; (b) an opinion of Luxembourg counsel addressed to the Trustee, to the effect that (i) Holders of the Notes will not recognise income, gain or loss for Luxembourg or Ukrainian income tax purposes as a result of the Legal Defeasance and will be subject to Luxembourg or Ukrainian income tax on the same amounts, in the same manner and at the same time as would have been the case if such Legal Defeasance had not occurred, and (ii) payments from the defeasance trust can be made free and exempt from any and all withholding and other taxes or whatever nature imposed or levied by or on behalf of Luxembourg or the Ukraine or any taxing authority thereof; and (c) an opinion of United Kingdom counsel addressed to the Trustee, to the effect that

- (i) Holders of the Notes will not recognise income, gain or loss for United Kingdom income tax purposes as a result of the Legal Defeasance and will be subject to United Kingdom income tax on the same amounts, in the same manner and at the same time as would have been the case if such Legal Defeasance had not occurred, and (ii) payments from the defeasance trust can be made free and exempt from any and all withholding and other taxes or whatever nature imposed or levied by or on behalf of the United Kingdom or any taxing authority thereof;
- (3) in the case of Covenant Defeasance, MHP has delivered to the Trustee an opinion of counsel confirming that the Holders of the outstanding Notes will not recognise income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);
- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which MHP or any of its Subsidiaries is a party or by which MHP or any of its Subsidiaries is bound;
- (6) MHP must deliver to the Trustee an Officer's Certificate stating that in making the deposit, MHP was not influenced by a desire to prefer the Holders of Notes over the other creditors of MHP or with the intent of defeating, hindering, delaying or defrauding creditors of MHP or others; and
- (7) MHP must deliver to the Trustee an Officer's Certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as otherwise provided in the next three succeeding paragraphs, the Indenture, the Notes, the Guarantees and the Proceeds Loan Assignments may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing default or compliance with any provision of the Indenture, the Notes, the Guarantees and the Proceeds Loan Assignments may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Without the consent of Holders of at least 90% of the aggregate principal amount of the outstanding Notes affected thereby, any such amendment or waiver may not:

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the Stated Maturity of any note or alter the provisions with respect to the redemption of the Notes;
- (3) reduce the rate of or change the Stated Maturity of any payment of interest on any note;
- (4) waive a Default or Event of Default in the payment of principal, premium, interest or Additional Amounts on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);
- (5) make any note payable in money other than that stated in the Notes;
- (6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal, premium, interest or Additional Amounts on the Notes;
- (7) waive a redemption payment with respect to any Note;

- (8) change the ranking of the Notes, the Guarantees or the Security Interests granted under or in the Proceeds Loan Assignments; or
- (9) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any Holder of Notes, MHP, the Guarantors, the Trustee and the Note Security Agent may amend or supplement the Indenture, the Notes, the Guarantees or the Proceeds Loan Assignments:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) to provide for the assumption of the obligations (including under the covenants in this Indenture, the Notes or the relevant Proceeds Loan Assignment) of MHP or any Guarantor to Holders of the Notes in the case of a merger, consolidation, amalgamation or other combination, or a sale of all or substantially all of the assets of, MHP or such Guarantor;
- (4) to make any change that would provide any additional rights or benefits to the Holders of Notes that, pursuant to an opinion of counsel for MHP to such effect, does not materially adversely affect the legal rights of any such Holder under the Indenture, the Notes, the Guarantees or the Proceeds Loan Assignments;
- (5) to conform the text of the Indenture, the Notes, the Guarantees or the Proceeds Loan Assignments to any provision of this "Description of Notes" based upon an Officer's Certificate of MHP to the effect that such provision in this "Description of Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Guarantees or the Proceeds Loan Assignments;
- (6) to provide for the issuance of Additional Notes in accordance with the limitations set forth in this Indenture as of the date hereof;
- (7) to provide for the discharge of a Guarantor in accordance with the terms of the Indenture;
- (8) to release any Security Interests pursuant to the terms of the Proceeds Loan Assignments; or
- (9) to enter into any intercreditor agreement with the holder of any other Indebtedness permitted to be incurred under the Indenture; *provided* that no such intercreditor agreement shall provide that the Notes or any Guarantee are subordinated to any such Indebtedness or subject to any payment blockage or enforcement standstill or that any Lien securing the Notes or the Guarantees ranks behind any Lien securing such Indebtedness;
- (10) to add to the Issuer's covenants or those of any other obligor upon the Notes for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuer or any other obligor upon the Notes, as applicable, in this Indenture or in the Notes;
- (11) to evidence and provide the acceptance of the appointment of a successor Trustee under this Indenture;
- (12) to mortgage, pledge, hypothecate or grant a security interest in favor of the Trustee for the benefit of the Holders of the Notes as security for the payment and performance of the Issuer's obligations under this Indenture, in any property, or assets, including any of which are required to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Trustee or the Holders of the Notes pursuant to this Indenture or otherwise;
- (13) to add Additional Guarantors in accordance with the terms of this Indenture; or
- (14) to permit the assignment of the Security Interests to Permitted Security Beneficiaries.

The Holders agree that the Trustee may agree to any such amendment without liability.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

Further, without the consent of any Holder of Notes, MHP, Eledem and the Guarantors may amend or supplement any Proceeds Loan to (a) reflect (i) any issue of Additional Notes or Capital Markets Debt permitted under this Indenture or (ii) any refinancing of Notes, Additional Notes or Capital Markets Debt as Permitted Refinancing Indebtedness and (b) to make such other changes that do not result in an impairment of the Security Interest.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

- (1) either:
 - (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to MHP, have been delivered to the Trustee for cancellation, or
 - (b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and MHP has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders, cash denominated in U.S. Dollars, non-callable U.S. dollar-denominated Government Securities, or a combination of cash in U.S. dollars and non-callable U.S. dollar-denominated Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which MHP or any Guarantor is a party or by which MHP or any Guarantor is bound;
- (3) MHP or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and
- (4) MHP has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, MHP must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the Trustee

If the Trustee becomes a creditor of MHP or any Guarantor, the Indenture limits, in the circumstances described therein, the Trustee's right to obtain payment of claims in certain cases, or to realise on certain property received in respect of any such claim as security, or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee under the Indenture.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of such majority of Holders of Notes, unless each such Holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

Governing Law

The Indenture will provide that the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Suretyship Agreement and Proceeds Loans will also be governed by, and construed in accordance with, the laws of the State of New York. The Proceeds Loan Assignment of MHP's Proceeds Loan to Eledem will be governed by, and construed in accordance with the, laws of Luxembourg; and Eledem's Proceeds Loan Assignment of its Proceeds Loan to the Guarantors, the laws of Cyprus.

Currency Indemnity and Calculation of U.S. Dollar-Denominated Restrictions

The U.S. dollar is the sole currency of account and payment for all sums payable by MHP or any Guarantor under or in connection with the Notes or any Guarantee including damages. Any amount received or recovered in a currency other than U.S. dollars, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of MHP or any Guarantor or otherwise, by any Holder or by the Trustee in respect of any sum expressed to be due to it from MHP or any Guarantor will only constitute a discharge to MHP or such Guarantor to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). It will be responsibility of MHP to arrange for any such currency conversion.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture, the Notes or the Proceeds Loans, MHP, Eledem and the Guarantors, as applicable, will irrevocably submit (i) to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States of America and (ii) to arbitration in New York City, New York, in accordance with the rules of the American Arbitration Association and at the election of the Trustee.

Enforceability of Judgments

Since substantially all of the assets of MHP, Eledem and the Guarantors are outside the United States, any judgment obtained in the United States against MHP or the Guarantors, as the case may be, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any redemption price and any purchase price with respect to the Notes, may not be collectable within the United States. See “Risk Factors—Risks Relating to the Notes and the Trading Market—Foreign judgments may not be enforceable in Ukraine”.

Notices

Notices regarding the Notes will be:

- (a) published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and through the newswire service of Bloomberg or, if Bloomberg does not then operate, any similar agency; and
- (b) in the case of certificated Notes, mailed to holders of such Notes by first class mail at their respective addresses as they appear on the registration books of the Registrar.

Notices given by first class mail will be deemed given five calendar days after mailing and notices given by publication will be deemed given on the first date on which publication is made.

If an so long as the Notes are listed on any securities exchange, notices will also be given in accordance with any applicable requirements of such securities exchange.

If and so long as any Notes are represented by Global Notes, notice to holders of the Notes will (in addition to publication as described above) also be given by delivery of the relevant notice to the Trustee for communication to holders of the Notes. Notice shall be deemed to have been given to such holders on the first day after the day on which the said notice was given to the Trustee.

Additional Information

Anyone who receives this offering memorandum may obtain a copy of the Indenture, the form of Notes and Guarantees and the Proceeds Loan Assignments (when available) without charge by writing to MHP S.A., 5 rue-Guillaume Kroll, L-1822 Luxembourg.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalised terms used herein for which no definition is provided.

“*Acquired Debt*” means, with respect to any specified Person Indebtedness of any other Person existing at the time such other Person is merged, consolidated, amalgamated or otherwise combined with or into or became a Restricted Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging, consolidating, amalgamating or otherwise combining with or into, or becoming a Restricted Subsidiary of, such specified Person.

“*Additional Assets*” means:

- (1) any property, plant or equipment used or useful in a Permitted Business;
- (2) the Share Capital of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Share Capital by MHP or another Restricted Subsidiary; or
- (3) Share Capital constituting a minority interest in any Person that at such time is a Restricted Subsidiary and a majority of whose Share Capital is owned by MHP or a Restricted Subsidiary.

“*Additional Guarantor*” means any Restricted Subsidiary that guarantees the Notes pursuant to the provisions of “—Certain Covenants—Additional Guarantees”.

“*Affiliate*” of any specified Person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control”, as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise, *provided* that for purposes of the “Transactions with Affiliates” covenant only “Affiliate” shall also be deemed to include any beneficial owner of 10% or more of the Voting Stock of a Person. For purposes of this definition: (i) the terms “controlling”, “controlled by” and “under common control with” have correlative meanings and (ii) “Affiliate” shall include funds advised by the specified Person.

“*Applicable Premium*” means:

With respect to any Note on any redemption date, the greater of:

- (1) 1.0% of the principal amount of the Note; or
- (2) the excess of:
 - (a) the present value at such redemption date of all required interest payments due on the Notes through 29 April 2015 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption plus 50 basis points; over
 - (b) the principal amount of the Note, if greater.

“*Asset Sale*” means:

- (1) the sale, lease, conveyance or other disposition of any tangible or intangible assets or rights of MHP or a Restricted Subsidiary; *provided* that the sale, conveyance or other disposition of all or substantially all of the assets of MHP and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption “—Repurchase at the Option of Holders—Change of Control” and/or the provisions described above under the caption “—Certain Covenants—Merger, Consolidation or Sale of Assets” and not by the provisions of the Asset Sale covenant; and
- (2) the issuance of Equity Interests in any Restricted Subsidiary of MHP or the sale of Equity Interests in any of its Subsidiaries (other than directors’ qualifying shares or shares referred by applicable law to be held by a Person other than MHP or a Restricted Subsidiary).

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than U.S.\$1.0 million;
- (2) a transfer of assets between or among MHP and its Restricted Subsidiaries;
- (3) an issuance of Equity Interests by a Restricted Subsidiary of MHP to MHP or to a Restricted Subsidiary of MHP;
- (4) the sale, lease, conveyance or disposition of assets (including, for the avoidance of doubt, products, services or accounts receivable or licensing of rights) in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business;

- (5) the sale or other disposition of cash or Cash Equivalents;
- (6) the creation of a Lien;
- (7) a Restricted Payment that does not violate the covenant described above under the caption “—Certain Covenants—Limitation on Restricted Payments” or a Permitted Investment;
- (8) the waiver, compromise, settlement, release or surrender of any right or claim in the ordinary course of business; and
- (9) the sale or other disposition of assets received by MHP or any of its Restricted Subsidiaries in compromise or settlement of claims of MHP or any of its Restricted Subsidiaries, *provided however* that the net cash proceeds of such sale or disposition are applied in accordance with the covenant described above under the caption “—Repurchase at the Option of Holders—Asset Sales”.

“*Attributable Debt*” in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction (including any period for which such lease has been extended or may, at the option of the lessor, be extended) or the earliest date on which the lessee may terminate such lease without penalty or upon payment of a penalty (in which case the rental payments shall include such penalty). Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP; provided however, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of “Capital Lease Obligation”.

“*Beneficial Owner*” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the U.S. Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as that term is used in Section 13(d)(3) of the U.S. Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“*Board of Directors*” means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorised to act on behalf of such board;
- (2) with respect to a partnership, the board of directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person, the board or committee of such Person serving a similar function.

Unless otherwise stated herein, all references to the “Board of Directors” shall be to the Board of Directors of MHP.

“*Board Resolution*” means a duly authorised resolution of the Board of Directors.

“*Capital Lease Obligation*” means, at the time any determination is to be made, the amount of the liability in respect of a capital or finance lease that would at that time be required to be capitalised on a balance sheet in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“*Capital Markets Debt*” means any Indebtedness permitted to be incurred under the Indenture consisting of bonds, debentures, notes or other similar debt securities (or any guarantees or intercompany loans in respect thereof) or preferred stock issued in (a) a public offering registered under the Securities Act, (b) listed on a recognised stock exchange or (c) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities or preferred stock to registration thereof with the SEC for public resale.

“*Cash and Cash Equivalent Amounts*” means with respect to any specified Person and as at any date of determination, the total amount of cash and cash equivalents that would have been included in a balance sheet of such person prepared in accordance with GAAP if prepared as at such date. For the avoidance of doubt, for purposes of this definition, cash equivalents will not be limited to the instruments and investments described in the definition of Cash Equivalents included in this Description of Notes.

“Cash Equivalents” means:

- (1) securities (i) issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality of the U.S. government (*provided* that the full faith and credit of the United States is pledged in support of those securities), or (ii) which are denominated in U.S. dollars and are issued by, or directly and fully guaranteed or insured by, a member of the European Union as of 1 January 2006 or Ukraine on the Issue Date, or any agency or instrumentality thereof, in each case having maturities of not more than six months from the date of acquisition;
- (2) certificates of deposit, time deposits and other bank deposits in U.S. dollars or euro with maturities of 12 months or less from the date of acquisition, bankers’ acceptances with maturities not exceeding 12 months and overnight bank deposits, in each case, with any commercial bank (i) having capital and surplus in excess of U.S.\$500.0 million (or the foreign currency equivalent thereof) and a rating of A-1/P-1 (or such similar equivalent rating) or better from at least one internationally recognised statistical rating organisation, (ii) licensed or organised in Ukraine and having a rating from at least one internationally recognised statistical rating organisation that is no less than one rating notch below the lower of the ratings for Ukraine’s sovereign bonds from the internationally recognised statistical rating organisations or (iii) licensed or organised in Ukraine and controlled by another bank organised in the United States or any EU jurisdiction that meets the requirements of clause (i) of this definition; *provided*, that Cash Equivalents will also include such certificates of deposit, time deposits and other bank deposits in hryvnia if, at the time of deposit or acquisition, the Issuer or one of its Restricted Subsidiaries has one or more Euro or U.S. dollar deposits or bankers’ acceptances with one or more of the institutions referred to in clauses (i) to (iii) above at least equal in value (at then current exchange rates) to the amount of interest payable on the Notes on the next Interest Payment Date;
- (3) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;
- (4) commercial paper having one of the two highest ratings obtainable from Moody’s or S&P and in each case maturing within one year after the date of acquisition;
- (5) investments in securities with maturities of six months or less from the date of acquisition issued or guaranteed by any state, commonwealth or territory of a member of the European Union or the United States, or by any political subdivision of taxing authority thereof; and
- (6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

“Change of Control” means the occurrence of any of the following:

- (1) MHP consolidates with, or merges with or into, another Person or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any Person, or any Person consolidates with, or merges with or into, MHP, in any such event pursuant to a transaction in which the outstanding Voting Stock of MHP is converted into or exchanged for cash, securities or other property, other than any such transaction where (i) the Beneficial Owners of the Voting Stock of MHP immediately before such transaction own, directly or indirectly, immediately after such transaction, at least a majority of the voting power of all Voting Stock of the surviving or transferee corporation or its parent corporation immediately after such transaction, as applicable, or (ii) immediately after such transaction, no “person” or “group” (as such terms are used in Sections 13(d) or 14(d) of the U.S. Exchange Act) other than Permitted Holders, is the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of such surviving or transferee corporation or its parent corporation, as applicable, or has, directly or indirectly, the right to elect or designate a majority of the board of directors of the surviving or transferee corporation or its parent corporation, as applicable;
- (2) any “person” or “group” (within the meaning of Sections 13(d) or 14(d) of the U.S. Exchange Act but excluding any Wholly Owned Restricted Subsidiary of MHP) other than Permitted Holders has become, directly or indirectly, the beneficial owner, by way of merger, consolidation or otherwise, of more than 50% of the voting power of the Voting Stock of MHP on a fully-diluted basis, after giving effect to the conversion and exercise of all outstanding warrants, options and other securities of MHP convertible into or exercisable for Voting Stock of MHP (whether or not such securities are then currently convertible or exercisable);

- (3) during any consecutive two-year period following the date the Permitted Holders cease to beneficially own, directly or indirectly, more than 50% of the voting power of the Voting Stock of MHP, Continuing Directors cease to constitute a majority of the members of the Board of Directors of MHP or JSC MHP;
- (4) the first day on which MHP ceases to own, directly or indirectly through Subsidiaries, 100% of the outstanding Equity Interests of Eledem and JSC MHP; or
- (5) the approval by the holders of the Equity Interests in MHP of any plan or proposal for the liquidation or dissolution of MHP other than in a transaction that complies with the provisions described under “—Certain Covenants—Merger, Consolidation or Sale of Assets”.

“*Change of Control Offer*” has the meaning assigned to it in the Indenture governing the Notes.

“*Consolidated EBITDA*” means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication:

- (1) all expense or provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such expense or provision for taxes was deducted in computing such Consolidated Net Income; *plus*
- (2) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*
- (3) depreciation, amortisation and any other non-cash items for such period to the extent deducted in determining Consolidated Net Income for such period (other than any non-cash item which requires the accrual of, or a reserve for, cash charges for any future period) of MHP and the Restricted Subsidiaries (including amortisation of capitalised debt issuance costs for such period and any non-cash compensation expense, realised for grants of stock options or other rights to officers, directors and employees), all of the foregoing determined on a consolidated basis in accordance with GAAP; *plus*
- (4) minority interests to the extent that such minority interests were deducted in computing Consolidated Net Income; *minus*
- (5) to the extent they increase Consolidated Net Income, net after-tax exceptional or non-recurring gains; *plus*
- (6) to the extent they decrease Consolidated Net Income, net after-tax exceptional or non-recurring losses; *minus*
- (7) to the extent they increase Consolidated Net Income, non-cash items (including the partial or entire reversal of reserves taken in prior periods, but excluding reversals of accruals or reserves for cash charges taken in prior periods and excluding the accrual of revenue in the ordinary course of business) for such period;

in each case, on a consolidated basis and determined in accordance with GAAP for such period.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortisation and other non-cash expenses of, a Restricted Subsidiary of MHP will be added to Consolidated Net Income to compute Consolidated EBITDA of MHP only in the same proportion as the relevant Person’s Net Income was included in Consolidated Net Income.

“*Consolidated Leverage Ratio*” means with respect to any specified Person and as at any date of determination, the ratio of the total Net Indebtedness of such Person at such date to the Consolidated EBITDA of such Person for the most recent four consecutive fiscal quarters for which financial statements are publicly available (or are made available), calculated in accordance with GAAP. In the event that the specified Person or any of its Subsidiaries incurs, assumes, guarantees, repays, repurchases or redeems any Indebtedness or issues, repurchases or redeems preferred shares subsequent to the commencement of the period for which Consolidated EBITDA is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Leverage Ratio is made (the “**Calculation Date**”), then the Consolidated Leverage Ratio will be calculated giving *pro forma* effect to such incurrence, assumption, guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preference shares, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Consolidated Leverage Ratio:

- (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers, consolidations, amalgamations or other business combinations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given *pro forma* effect as if they had occurred on the first day of the four-quarter reference period and Consolidated EBITDA and total Net Indebtedness for such reference period will be calculated on a *pro forma* basis in accordance with GAAP;
- (2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and
- (3) the Indebtedness attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that such Indebtedness will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

For purposes of this definition, *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of MHP.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that:

- (1) the Net Income (but not loss) of any other Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the specified Person;
- (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders, provided that such Net Income shall be included up to the amount of cash actually distributed to the Person or a Restricted Subsidiary of the Person during such period as a dividend or distribution;
- (3) the cumulative effect of a change in accounting principles after the date of the Indenture will be excluded; and
- (4) any expenses, charges or other costs related to the Transactions (including amortisation of any such expenses, charges or other costs that have been capitalised) will be excluded.

“*Continuing Directors*” means, for any period, any member of the Board of Directors of MHP or JSC MHP who:

- (1) was a member of such Board of Directors at the beginning of such period; or
- (2) was nominated for election or was elected to such Board of Directors with the approval of a majority of the members of the Board of Directors who were members of the Board of Directors at the beginning of such period or whose nomination for election or election was previously so approved.

“*Credit Facilities*” means, one or more borrowing facilities or commercial paper facilities, in each case, with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

“*Default*” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“*Disqualified Shares*” means any Equity Interests that, by their terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Equity Interests), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a

sinking fund obligation or otherwise, or is redeemable at the option of the holder of the Equity Interests, in whole or in part, in each case on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Equity Interests that would constitute Disqualified Shares solely because the holders of the Share Capital have the right to require MHP to repurchase such Equity Interests upon the occurrence of a change of control or an asset sale will not constitute Disqualified Shares if the terms of such Equity Interests provide that MHP may not repurchase or redeem any such Equity Interests pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption “—Certain Covenants—Limitation on Restricted Payments”.

“*Equity Interests*” of any Person means Share Capital and all warrants, options or other rights to acquire Share Capital (but excluding any Indebtedness that is convertible into, or exchangeable for, Share Capital) of any Person.

“*Equity Offering*” means an underwritten primary public offering or marketed private sale to institutional investors of ordinary shares of MHP or a direct or indirect parent company of MHP to the extent the proceeds of such offering or sale are received by and contributed to the equity capital of MHP.

“*EMU*” means economic and monetary union as contemplated in the Treaty on European Union.

“*European Union*” means the European Union, including any country that is a Member State as of the Issue Date, but not including any country which becomes a member of the European Union after the Issue Date.

“*Exchange Notes*” means up to U.S.\$266 million aggregate principal amount of the Issuer’s 10.25% Senior Notes due 2015 which the Issuer is offering to exchange for the Issuer’s Existing Notes.

“*Exchange Offer*” means the offer to exchange up to U.S.\$266 million aggregate principal amount of the Issuer’s 10.25% Senior Notes due 2015 for the Issuer’s Existing Notes.

“*Existing Indebtedness*” means Indebtedness of MHP and its Subsidiaries in existence on the Issue Date (other than Indebtedness under the Notes), until such amounts are repaid.

“*Existing Notes*” means the Issuer’s existing U.S.\$250,000,000 10.25% Senior Notes due 2011.

“*Existing Notes Issue Date*” means 30 November 2006.

“*Fair Market Value*” means the value that would be paid by a willing buyer to a willing seller that is not an Affiliate of the buyer in a transaction not involving distress or necessity of either party, determined in good faith by the Board of Directors (unless otherwise provided in the Indenture), whose determination will be conclusive.

“*Fixed Charges*” means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period (net of any interest income), whether paid or accrued, including, without limitation, amortisation of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers’ acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates, but excluding debt issuance costs that are expensed; *plus*
- (2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalised during such period; *plus*
- (3) any interest accruing on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such guarantee or Lien is called upon; *plus*
- (4) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of MHP (other than Disqualified Shares) or to MHP or a Restricted Subsidiary of MHP, on a consolidated basis and in accordance with GAAP, which dividends are fixed under the terms of the preferred stock.

“*GAAP*” means International Financial Reporting Standards as in effect from time to time.

“*Government Securities*” means direct obligations of, obligations fully guaranteed by, or participations in pools consisting solely of obligations of or obligations guaranteed by the United States of America or any country of the European Union for the payment of which guarantee or obligations the full faith and credit of the United States or any country of the European Union is pledged and which are not callable or redeemable at the option of MHP.

“*guarantee*” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of surety or a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

“*Hedging Obligations*” means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

“*Indebtedness*” means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), without duplication, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker’s acceptances;
- (4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;
- (5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed; or
- (6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term “Indebtedness” includes (i) all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person), the amount of such obligation being deemed to be the lesser of the Fair Market Value of such assets and the amount of the obligation secured, and (ii) to the extent not otherwise included, the guarantee by the specified Person of any Indebtedness of any other Person.

Notwithstanding the foregoing, in connection with the purchase by MHP or any of its Restricted Subsidiaries of any business, the term “Indebtedness” will exclude post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing.

The term “Indebtedness” shall not include (i) non-interest bearing instalment obligations and accrued liabilities incurred in the ordinary course of business that are not more than 90 days past due, (ii) any pension obligation of MHP or any of its Restricted Subsidiaries or (iii) except for purposes of the “Sale and Leaseback Transactions” covenant, anything accounted for as an operating lease in accordance with GAAP.

“*Investments*” means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including guarantees or other obligations), advances or capital contributions (excluding advances to customers and commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisition for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If MHP or any Subsidiary of MHP sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of

MHP such that, after giving effect to any such sale or disposition, such Subsidiary is no longer a Restricted Subsidiary of MHP, MHP will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of MHP's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption “—Certain Covenants—Limitation on Restricted Payments”. The acquisition by MHP or any Subsidiary of MHP of a Person that holds an Investment in a third person will be deemed to be an Investment by MHP or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption “—Certain Covenants—Limitation on Restricted Payments”. Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

“*Issue Date*” means 29 April 2010, the date of original issuance of the Notes.

“*Lien*” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell give a security interest in and any filing of or agreement to give any financing statement under the applicable law of any jurisdiction.

“*Moody's*” means Moody's Investors Service, Inc.

“*Net Income*” means, with respect to any specified person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preference shares dividends.

“*Net Indebtedness*” means, with respect to any specified Person and as at any date of determination, the total Indebtedness of such Person less any Cash and Cash Equivalent Amounts, in each case, as at the date of such determination.

“*Net Proceeds*” means the aggregate cash proceeds received by MHP or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale, but only as and when received), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, sales commission and any relocation expenses incurred as a result of the Asset Sale, and taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions; any tax sharing arrangements and any amounts required to be applied to the repayment of Indebtedness secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

“*Note Security Agent*” means Deutsche Bank Trust Company Americas (or, if applicable, such other person as may from time to time hold the whole or any part of the Security Interests granted in the Security) as Note Security Agent under the Proceeds Loan Assignments.

“*Obligations*” means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

“*Offering*” means the offering of U.S.\$330,000,000 aggregate principal amount of the Issuer's 10.25% Senior Notes due 2015.

“*Officer's Certificate*” means a certificate signed by an officer of the Issuer, a Guarantor or, for purposes of the “Mergers, Consolidation or Asset Sales” covenant, a surviving corporation.

“*Paying Agent*” means Deutsche Bank Trust Company Americas, or any successor paying agent under the Indenture.

“*Permitted Business*” means (i) a business in the agro-industrial sector, including, without limitation, the production and processing of poultry, beef and fruit products and (ii) any activity or business that is a reasonable extension or expansion of, or reasonably related to, the business described in the preceding clause (i), including food-service and sales outlets.

“*Permitted Business Investment*” means an Investment in any Person the primary business of which consists of a Permitted Business.

“*Permitted Holders*” means Yuri A. Kosuk and any Related Party;

“Permitted Investments” means:

- (1) any Investment in MHP or in a Restricted Subsidiary of MHP;
- (2) any Investment in Cash Equivalents or Government Securities;
- (3) any Investment by MHP or any Restricted Subsidiary of MHP in a person, if as a result of such Investment:
 - (a) such person becomes a Restricted Subsidiary of MHP; or
 - (b) such person is merged, consolidated, amalgamated or otherwise combined with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, MHP or a Restricted Subsidiary of MHP;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption “—Repurchase at the Option of Holders—Asset Sales”;
- (5) any acquisition of assets or Share Capital solely in exchange for the issuance of Equity Interests (other than Disqualified Shares) of MHP;
- (6) any Investments received in compromise or resolution of (a) obligations of trade creditors or customers that were incurred in the ordinary course of business of MHP or any of its Restricted Subsidiaries, including pursuant to any plan of reorganisation or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer or pursuant to foreclosure of Liens; or (b) litigation, arbitration or other disputes with Persons who are not Affiliates;
- (7) Investments represented by Hedging Obligations;
- (8) loans or advances to employees made in the ordinary course of business of MHP or a Restricted Subsidiary of MHP in an aggregate principal amount not to exceed U.S.\$5.0 million at any one time outstanding;
- (9) repurchases or redemptions of the Notes;
- (10) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (11) any Investment in any Person to the extent such Investment consists of prepaid expenses, negotiable instruments held for collection and lease, workers’ compensation, performance and other similar deposits made in the ordinary course of business by MHP or any Restricted Subsidiary;
- (12) guarantees permitted to be incurred by the “Limitation on Incurrence of Indebtedness and Issuance of Preferred Shares” covenant;
- (13) the Proceeds Loans or any agreement or agreements substantially similar to the Proceeds Loans pursuant to which MHP or a Restricted Subsidiary loans to a Restricted Subsidiary the proceeds of Indebtedness incurred by MHP in compliance with clause (6) of the “Limitation on Incurrence of Indebtedness and Issuance of Preferred Shares” covenant;
- (14) Investments existing on the Issue Date and any amendment, modification, restatement, supplement, extension, renewal, refunding, replacement or refinancing, in whole or in part, thereof;
- (15) Investments constituting Permitted Business Investments, the sum of which does not exceed the greater of U.S.\$5.0 million at any time outstanding; and
- (16) other Investments in any person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (16) that are at the time outstanding of no more than U.S.\$10.0 million.

“Permitted Liens” means:

- (1) Liens on Inventory purchased with Indebtedness incurred under Credit Facilities permitted under Clause (1) of the second paragraph of “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”;

- (2) Liens in favour of MHP or the Guarantors to secure obligations which are not pledged to secure Indebtedness owing to third parties;
- (3) Liens on property of a person existing at the time such person is merged, consolidated, amalgamated or otherwise combined with or into MHP or any Subsidiary of MHP; *provided* that such Liens were in existence prior to the contemplation of such merger, consolidation, amalgamation or other combination and do not extend to any assets other than those of the person merged, consolidated, amalgamated or combined with MHP or the Subsidiary;
- (4) Liens on property (including Share Capital) existing at the time of acquisition of the property or of the Restricted Subsidiary which owns the property by MHP or any Subsidiary of MHP, *provided* that such Liens were in existence prior to, such acquisition, and not incurred in contemplation of, such acquisition;
- (5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;
- (6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares” covering only the assets acquired with or financed by such Indebtedness;
- (7) Liens existing on the Issue Date (including the extension, re-issuance or renewal of such Liens in connection with Permitted Refinancing Indebtedness permitted to be incurred under clause (5) of the second paragraph of the covenant entitled “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”;
- (8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings instituted within a reasonable period of time and diligently pursued, *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;
- (9) Liens imposed by law, such as carriers’, warehousemen’s, landlord’s and mechanics’ Liens or other similar Liens, in each case, incurred in the ordinary course of business;
- (10) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;
- (11) Liens created for the benefit of (or to secure) the Notes (or the Guarantees);
- (12) Liens securing Hedging Obligations permitted by clause (7) of the second paragraph under the caption entitled “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares” and any Lien the principle purpose of which is to allow the setting off or netting of obligations under or in connection with any Hedging Obligation, in either case, so long as such Lien is over only (i) the assets that secure the Indebtedness that is the subject of the relevant Hedging Obligations or (ii) cash or Cash Equivalents securing such Hedging Obligations;
- (13) Liens incurred or deposits made in connection with workers’ compensation, unemployment insurance, other types of social security and other types of related statutory obligations;
- (14) rights of set-off under contracts that do not relate to Indebtedness for borrowed money;
- (15) Liens in favour of customs or revenue authorities to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;
- (16) Liens resulting from escrow arrangements unrelated to Indebtedness for borrowed money entered into in connection with a disposition of assets;
- (17) any retention of title reserved by any seller of goods or any Lien imposed, reserved or granted over goods supplied by such seller;
- (18) Liens arising out of or in connection with pre-judgment legal process or a judgment or a judicial awarded relating to security for costs;

- (19) Liens on pledges of Equity Interests of any Unrestricted Subsidiary securing any Indebtedness of such Unrestricted Subsidiary;
- (20) Liens held by a Person on the assets or property of a Restricted Subsidiary of such Person to secure Indebtedness of such Restricted Subsidiary owing to and held by such Person;
- (21) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of MHP or any of its Restricted Subsidiaries;
- (22) any right of refusal, right of first offer, option or other agreement to sell or otherwise dispose of an asset of MHP or any Restricted Subsidiary;
- (23) Liens to secure any Permitted Refinancing Indebtedness as a whole, or in part, in respect of any Indebtedness secured by any Lien referred to in the foregoing clauses (4), (5), (7) and (8); *provided, however, that:*
 - (a) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and
 - (b) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clauses (4), (5), (7) and (8) at the time the original Lien became a Permitted Lien and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement;
- (24) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses (1) through (25); provided that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien so extended, renewed or replaced and shall not extend to any additional property or assets and that to the extent such Lien secures Indebtedness, the principal amount of the Indebtedness so secured is not increased;
- (25) Liens to secure Indebtedness permitted by clause (14) of the second paragraph of the covenant entitled “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares” covering only the assets acquired with or financed by such Indebtedness, the finished products produced with such assets and the receivables arising upon the sale of such products;
- (26) Liens on Permitted Proceeds Loans securing Capital Markets Debt or Additional Notes; and
- (27) Liens incurred in the ordinary course of business of MHP or any of its Restricted Subsidiaries with respect to obligations that do not exceed U.S.\$10.0 million at any one time outstanding.

“*Permitted Proceeds Loans*” means the loans made by the Issuer, as lender, to Eledem, as borrower, and by Eledem, as lender, to the Guarantors, as co-obligors, in the amount of the gross proceeds received by the Issuer from the issuance of Capital Markets Debt (other than the Notes) or Additional Notes; *provided that* (a) upon completion of the offering of any such Capital Markets Debt or issue of Additional Notes such Permitted Proceeds Loan will have been assigned pursuant to a loan assignment to the Note Security Agent to secure such Capital Markets Debt, the Notes and any Additional Notes, on an equal and ratable basis, on the same terms (including with respect to priority and as to the application of enforcement proceeds) as the Proceeds Loan Assignments; and (b) the Issuer will have delivered to the Trustee an Opinion of Counsel with respect to such Capital Markets Debt, Additional Notes and Permitted Proceeds Loan (and the Lien in respect thereof), in form and substance reasonably satisfactory to the Trustee, confirming the matters set forth in clause (a) above.

“*Permitted Refinancing Indebtedness*” means any Indebtedness of MHP or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to refund, refinance, replace, defease or discharge other Indebtedness of MHP or any of its Restricted Subsidiaries (other than intercompany Indebtedness), including Indebtedness that refinances Permitted Refinancing Indebtedness; *provided that:*

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

- (2) such Permitted Refinancing Indebtedness has a final Stated Maturity no earlier than the final Stated Maturity of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and
- (3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Guarantees, such Permitted Refinancing Indebtedness has a final Stated Maturity later than the final Stated Maturity of, and is subordinated in right of payment to, the Notes and the Guarantees on terms at least as favourable to the Holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and
- (4) to the extent such Indebtedness is incurred by a Restricted Subsidiary that is not a Guarantor, such Restricted Subsidiary was the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

“*Permitted Security Beneficiary*” means the trustees and security agents for, and holders of, Capital Markets Debt or Additional Notes provided that proceeds loans have been made in respect thereof that meet all the requirements of the definition of Permitted Proceeds Loans.

“*Person*” means any individual, corporation, company, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity.

“*Proceeds Loans*” means one or more loans (i) between Eledem, as borrower, and MHP, as lender, and (ii) between each Guarantor, as borrowers and co-obligors, and Eledem, as lender, in each case of a portion of the gross proceeds received by MHP from the issue of the Notes or the Existing Notes and (iii) any Permitted Proceeds Loans.

“*Proceeds Loan Assignments*” means the agreements governing MHP’s and Eledem’s assignment of their interests in their respective Proceeds Loans or Permitted Proceeds Loans to the Note Security Agent.

“*Qualified Expert*” means an accounting, appraisal, investment bank or other firm, in each case, of international standing, or another firm with specialist knowledge in valuing the property, assets or rights that are the subject of the relevant transaction.

“*Registrar*” means Deutsche Bank Trust Company Americas.

“*Related Party*” means the spouse of or immediate family member of Yuri A. Kosuk or any trust, corporation, partnership or other entity, the only beneficiaries, stockholders, partners or owners of which, consist of Yuri A. Kosuk, his spouse, and/or immediate family members of Yuri A. Kosuk.

“*Restricted Investment*” means an Investment other than a Permitted Investment.

“*Restricted Subsidiary*” of a Person means any Subsidiary of the referenced Person that is not an Unrestricted Subsidiary.

“*S&P*” means Standard & Poor’s Ratings Group.

“*Security*” means the Proceeds Loans and any Permitted Proceeds Loans.

“*Security Interest*” means the first-ranking security interest created in the Security by Proceeds Loan Assignments in favour of the Note Security Agent for the benefit of the Holders, the holders of Existing Notes and any Permitted Security Beneficiaries.

“*Share Capital*” means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Share Capital, whether or not such debt securities include any right of participation with Share Capital.

“*Significant Subsidiary*” means any Subsidiary that would be a “significant subsidiary” as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the U.S. Securities Act, as such Regulation is in effect on the date hereof.

“*Stated Maturity*” means, with respect to any instalment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

“*Subsidiary*” means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which more than 50% of the total voting power of Share Capital entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

“*Suretyship Agreement*” means the suretyship agreement between the Trustee, the Note Security Agent and the Guarantors, to be dated as of the Issue Date, setting forth the terms of the Guarantees.

“*Transactions*” means (i) the Offering, (ii) the Exchange Offer, (iii) the making of the Proceeds Loans, (iv) the giving of the Guarantees and the granting of the Security Interests under the Proceeds Loan Assignments and (v) the payment of costs, fees and expenses, in each case, related thereto.

“*Treasury Rate*” means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to 30 November 2011; *provided, however*, that if the period from the redemption date to 30 November 2011 is not equal to the constant maturity of a United States Treasury security for which a weekly average is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to 30 November 2011 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

“*Unrestricted Subsidiary*” means any Subsidiary of MHP that is designated by the Board of Directors of MHP as an Unrestricted Subsidiary in accordance with the provisions summarised under “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” pursuant to a Board Resolution (and any Subsidiary of an Unrestricted Subsidiary), but only to the extent that:

- (1) immediately after giving effect to such designation MHP could incur U.S.\$1.00 of additional Indebtedness under the first paragraph under “—Certain Covenants—Limitation on Incurrence of Indebtedness and Issuance of Preference Shares”; and
- (2) such designation and the Investment of MHP or a Restricted Subsidiary in such Unrestricted Subsidiary complies with the provisions under “—Certain Covenants—Limitation on Restricted Payments”; and
- (3) no Default shall have occurred and be occurring.

“*U.S. Exchange Act*” means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“*Voting Stock*” of any Person as of any date means the Share Capital of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining instalment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

“*Wholly Owned Restricted Subsidiary*” of any specified Person means a Restricted Subsidiary of such Person all of the outstanding Share Capital or other ownership interests of which (other than directors’ qualifying shares) or shares required by applicable law to be held by a Person other than MHP or a Restricted Subsidiary will at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person.

BOOK ENTRY, DELIVERY AND FORM

General

Notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act will be represented by a global note in registered form without interest coupons attached (the “**Rule 144A Global Note**”). The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of the Depository Trust Company (“**DTC**”). Notes sold in reliance on Regulation S under the U.S. Securities Act will be represented by a global note in registered form without interest coupons attached (the “**Regulation S Global Note**” and, together with the Rule 144A Global Note, the “**Global Notes**”). The Regulation S Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC.

Ownership of interests in the Rule 144A Global Note (“**Rule 144A Book Entry Interests**”) and in the Regulation S Global Note (the “**Regulation S Book Entry Interests**” and, together with the Rule 144A Book Entry Interests, the “**Book Entry Interests**”) will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream Banking, or persons that hold interests through such participants. DTC, Euroclear and Clearstream Banking will hold interests in the Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, Book Entry Interests will not be held in definitive certificated form.

Book Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by DTC, Euroclear and Clearstream Banking and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book Entry Interests. In addition, while the notes are in global form, holders of Book Entry Interests will not be considered the owners or “holders” of notes for any purpose.

So long as the Notes are held in global form, DTC, Euroclear and/or Clearstream Banking, as applicable (or their respective nominees) will be considered the sole holders of Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of DTC, Euroclear and/or Clearstream Banking and indirect participants must rely on the procedures of DTC, Euroclear, Clearstream Banking and the participants through which they own Book Entry Interests to transfer their interests, or to exercise any rights of holders under the Indenture.

Neither the Issuer nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book Entry Interests.

Redemption of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, DTC, Euroclear and/or Clearstream Banking, as applicable, will redeem an equal amount of the Book Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book Entry Interests will be equal to the amount received by DTC, Euroclear and Clearstream Banking, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of DTC, Euroclear and Clearstream Banking, if fewer than all of the Notes are to be redeemed at any time, DTC, Euroclear and Clearstream Banking will credit their respective participants’ accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book Entry Interest of U.S.\$100,000 principal amount or less may be redeemed in part.

Payments on Global Notes

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest) to DTC or its nominee (in the case of the Rule 144A Global Note and in the case of the Regulation S Global Note), which will distribute such payments to participants in accordance with their customary procedures.

The Issuer will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature,

except as may be required by law and as described under “Description of Notes—Additional Amounts”. If any such deduction or withholding is required to be made, then, to the extent described under “Description of Notes—Additional Amounts” above, the Issuer will pay additional amounts as may be necessary in order that the net amounts received by any holder of the Global Notes after such deduction or withholding will equal the net amounts that such holder would have otherwise received in respect of such Global Note absent such withholding or deduction.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holder of the Global Notes (e.g., DTC, Euroclear or Clearstream Banking (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee or any or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of DTC, Euroclear or Clearstream Banking or any participant or indirect participant relating to, or payments made on account of, a Book Entry Interest or for maintaining, supervising or reviewing the records of DTC, Euroclear or Clearstream Banking or any participant or indirect participant relating to or payments made to an account of a Book Entry Interest; or
- DTC, Euroclear or Clearstream Banking or any participant or indirect participant.

Payments by participants to owners of Book Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in “street name”.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Rule 144A Global Note will be paid to holders of interests in such Notes (the “**DTC Holders**”) through DTC in dollars. The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Regulation S Global Note will be paid to holders of interests in such Notes (the “**Euroclear/Clearstream Banking Holders**”) through Euroclear and/or Clearstream Banking in dollars.

Notwithstanding the payment provisions described above, Euroclear/Clearstream Banking Holders may elect to receive payments in respect of the Regulation S Global Note in euro.

A Euroclear/Clearstream Banking Holder may receive payments of amounts payable in respect of its interest in the Regulation S Global Note in euro in accordance with Euroclear’s and Clearstream Banking’s customary procedures, which include, amongst other things, giving to Euroclear or Clearstream Banking, as appropriate, a notice of such holder’s election to receive such payments in euro. All costs of conversion resulting from any such election will be borne by such holder.

A DTC Holder may receive payments of amounts payable in respect of its interest in the Rule 144A Global Notes in euro in accordance with DTC’s customary procedures, which include, amongst other things, giving to DTC a notice of such holder’s election to receive such payments in euro. All costs of conversion resulting from any such election will be borne by such holder.

Action by Owners of Book Entry Interests

DTC, Euroclear or Clearstream Banking have advised the Issuer that they will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account the Book Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. DTC, Euroclear or Clearstream Banking will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Indenture, each of DTC, Euroclear or Clearstream Banking reserves the right to exchange the Global Note for definitive registered notes in certificated form (“**Definitive Registered Notes**”), and to distribute Definitive Registered Notes to its participants.

Transfers

Transfers between participants in DTC will be effected in accordance with DTC rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell notes to persons in jurisdictions which require physical delivery of securities or to pledge such securities, such holder must transfer its interest in the Global Notes in

accordance with the normal procedures of DTC and in accordance with the procedures set forth in the Indenture.

The Global Notes will have a legend to the effect set forth under “Notice to Investors.” Book Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements.

Rule 144A Book Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act).

Transfers involving an exchange of a Regulation S Book Entry Interest for a Rule 144A Book Entry Interest will be done in DTC by means of an instruction originated by the Trustee through the DTC Deposit/Withdrawal at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the corresponding Rule 144A Global Note. Any Book Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book Entry Interest in any other Global Note will, upon transfer, cease to be a Book Entry Interest in the first-mentioned Global Note and become a Book Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book Entry Interests in such other Global Note for as long as it remains such a Book Entry Interest.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book Entry Interests will receive Definitive Registered Notes:

- if DTC, Euroclear or Clearstream Banking notifies the Issuer that it is unwilling or unable to continue to act as depository and a successor depository is not appointed by the Issuer within 120 days;
- if DTC, Euroclear or Clearstream Banking so requests following an Event of Default under the Indenture; or
- if the owner of a Book Entry Interest requests such exchange in writing delivered through either DTC, Euroclear or Clearstream Banking following an Event of Default under the Indenture.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such note by surrendering it to the Registrar or a Transfer Agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that no Definitive Registered Note in a denomination less than U.S.\$100,000 will be issued. The Issuer will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

The Issuer will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (a) the record date for any payment of interest on the notes, (b) any date fixed for redemption of the notes or (c) the date fixed for selection of the notes to be redeemed in part. Also, the Issuer is not required to register the transfer or exchange of any notes selected for redemption. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, amongst other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. The Issuer may require a holder to pay any taxes and fees required by law and permitted by the Indenture and the notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Notes have been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the office of a Transfer Agent, the Issuer will issue and the Trustee will authenticate a replacement Definitive Registered Note if the Trustee’s and the Issuer’s requirements are met. The Trustee or the Issuer may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect the Issuer, the Trustee or the Paying Agent appointed pursuant to the Indenture from any loss which any of them may suffer if a

Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by it in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer in its discretion may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the Issuer's paying agent in London so long as the Notes are listed on the London Stock Exchange and the rules of such exchange so require.

Information Concerning DTC, Euroclear and Clearstream Banking

The Issuer understands as follows with respect to DTC, Euroclear and Clearstream Banking:

DTC

DTC is:

- a limited purpose trust company organised under the New York Banking Law;
- a "banking organisation" under New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations such as the initial purchasers. DTC's owners are the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. and a number of its direct participants. Others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Rule 144A Global Note only through DTC participants.

The address of DTC in New York is 55 Water Street, New York, New York, 10041.

Euroclear and Clearstream Banking

Like DTC, Euroclear and Clearstream Banking hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book entry changes in accounts of such participants. Euroclear and Clearstream Banking provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream Banking interface with domestic securities markets. Euroclear and Clearstream Banking participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream Banking is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream Banking participant, either directly or indirectly.

The address of Euroclear in New York is One Battery Park Plaza, 24th Floor, New York, New York, 10004.

The address of Clearstream in New York is 350 Madison Avenue, Floor 23, New York, New York, 10017.

Global Clearance and Settlement Under the Book Entry System

The Notes represented by the Global Notes are expected to be listed on the London Stock Exchange and to trade in DTC's Same-Day Funds Settlement system, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream Banking participants, on the other hand, will be done through DTC in accordance with DTC's rules and procedures; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream Banking by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream Banking will, if the transaction meets its settlement requirements, deliver instructions to DTC or its nominee to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream Banking participants may not deliver instructions directly to DTC or its nominee.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream Banking participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream Banking, as the case may be) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream Banking as a result of sales of interest in Global Note by or through a Euroclear or Clearstream Banking participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream Banking cash account only as of the business day for Euroclear or Clearstream Banking following DTC's settlement date.

Although DTC, Euroclear and Clearstream Banking are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear or Clearstream Banking, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Paying Agents and Registrar for the Notes

The Issuer has undertaken to maintain one or more paying agents for the Notes in London, England. The London Paying Agent currently is Deutsche Bank AG, London Branch located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. The Issuer has also undertaken to maintain one or more registrars with offices in New York, New York. The Registrar currently is Deutsche Bank Trust Company Americas in New York, New York. The Registrar will maintain a register reflecting ownership of notes outstanding from time to time and will make payments on and facilitate transfer of notes on behalf of the Issuer. The Issuer may change the Paying Agent or Registrar without prior notice to the Holders.

TAXATION

The following summary of certain Luxembourg, Cyprus, United Kingdom and United States tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Offering Memorandum. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to Holders. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to Holders. Each prospective Holder is urged to consult its own tax advisers as to the particular tax consequences to such holder of the ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Offering Memorandum, and of any actual changes in applicable tax laws after such date.

Luxembourg

Please be aware that the residence concept used below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate Noteholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual tax payers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, nor be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of their entitlements thereunder.

Withholding Tax

Resident Noteholders

Under the Luxembourg law dated 23 December 2005 as amended (the “**Law**”) a 10% withholding tax is levied as of 1 January 2006 on interest payments (or similar income) made by Luxembourg paying agents to or for the benefit of Luxembourg individual residents. This withholding tax also applies on accrued interest received upon disposal, redemption or repurchase of the Notes. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth.

Further, Luxembourg resident individuals acting in the course of the management of their private wealth, who are the beneficial owners of interest payments made by a paying agent established outside Luxembourg in a Member State of the European Union or of the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the European Council Directive 2003/48/EC on taxation of savings income (the “**EU Savings Directive**”), may also opt for a final 10% levy. In such case, the 10% levy is calculated on the same amounts as for the payments made by Luxembourg resident paying agents. The option for the 10% levy must cover all interest payments made by the paying agent to the Luxembourg resident beneficial owner during the entire civil year.

Non-resident Noteholders

Under the Luxembourg tax law currently in effect and subject to the application of the Luxembourg laws dated 21 June 2005 (the “**Laws**”) implementing the EU Savings Directive and several agreements concluded between Luxembourg and certain dependant territories of the European Union, there is no withholding tax on payments of interests (including accrued but unpaid interest) made to a Luxembourg

non-resident Noteholder. There is also no Luxembourg withholding tax, upon repayment of the principal, or subject to the application of the Laws, upon redemption or exchange of the Notes.

Under the Laws, a Luxembourg based paying agent (within the meaning of the EU Savings Directive) is required since 1 July 2005, to withhold tax on interest and other similar income (including reimbursement premium received at maturity) paid by it to (or under certain circumstances, to the benefit of) an individual or a residual entity in the sense of article 4.2. of the EU Savings Directive (i.e. an entity without legal personality except for (1) a Finnish avoin yhtiö and kommandiittiyhtiö / öppet bolag and kommanditbolag and (2) Swedish handelsbolag and kommanditbolag, and whose profits are not taxed under the general arrangements for the business taxation and that is not, or has not opted to be considered as, a UCITS recognised in accordance with Council Directive 85/611/EEC) (“Residual Entities), resident or established in another Member State of the European Union unless the beneficiary of the interest payments elects for an exchange of information. The same regime applies to payments to individuals or Residual Entities resident in any of the following territories: Aruba, the British Virgin Islands, Guernsey, the Isle of Man, Jersey, Montserrat and Netherlands Antilles.

The withholding tax is currently of to 20% increasing to 35% as from 1 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries.

In each case described here above, responsibility for the withholding tax will be assumed by the Luxembourg paying agent.

Taxation of the Noteholders

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment or a permanent representative in Luxembourg to which the Noteholders are attributable, must, for income tax purposes, include any interest paid or accrued in their taxable income. Specific exemptions may be available for certain tax payers benefiting from a particular status.

Luxembourg resident individuals

A Luxembourg resident individual Noteholder acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts under the Notes, except if a withholding tax has been levied by the Luxembourg paying agent on such payments or, in case of a non-resident paying agent, if such individual Noteholder has opted for the 10% levy, in accordance with the Law.

Under Luxembourg domestic tax law, gains realised upon the sale, disposal or redemption of the Notes, which do not constitute Zero Coupon Notes, by a Luxembourg resident individual Noteholder, who acts in the course of the management of his/her private wealth on the sale or disposal, in any form whatsoever, of Notes, are not subject to Luxembourg income tax provided this sale or disposal took place six months after the acquisition of the Notes. A Luxembourg resident individual Noteholder, who acts in the course of the management of his/her private wealth, has further to include the portion of the gain corresponding to accrued but unpaid income in respect of the Notes in his/her taxable income, insofar as the accrued but unpaid interest is indicated separately in the agreement.

A gain realised upon a sale of Zero Coupon Notes before their maturity by Luxembourg resident individual Noteholders, in the course of the management of their private wealth must be included in their taxable income for Luxembourg income tax assessment purposes.

Luxembourg resident individual Noteholders acting in the course of the management of a professional or business undertaking to which the Notes are attributable, may have to include any interest received or accrued, as well as any gain realised on the sale or disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are determined as being the difference between the sale, repurchase or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed. The same tax treatment applies to non-resident Noteholders who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable.

Luxembourg corporate residents

Luxembourg corporate Noteholders must include any interest received or accrued, as well as any gain realised on the sale or disposal of the Notes, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are determined as being the difference between the sale, repurchase or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg corporate residents benefiting from a special tax regime

Luxembourg corporate resident Noteholders who benefit from a special tax regime, such as, for example, (i) holding companies subject to the amended law of 31 July 1929, (ii) undertakings for collective investment subject to the amended laws of 20 December 2002, (iii) specialised investment funds subject to the law dated 13 February 2007 or (iv) family wealth management companies subject to the law dated 11 May 2007, are exempt from income tax in Luxembourg and thus income derived from the Notes, as well as gains realised thereon, are not subject to Luxembourg income taxes.

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg to which the Notes are attributable are not liable to any Luxembourg income tax, whether they receive payments of principal or interest (including accrued but unpaid interest) or realise capital gains upon redemption, repurchase, sale or exchange of any Notes.

Noteholders who are non-residents of Luxembourg and who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable have to include any interest received or accrued, as well as any capital gain realised on the sale or disposal of the Notes in their taxable income for Luxembourg income tax assessment purposes.

Net Wealth Tax

Luxembourg resident Noteholders or non-resident Noteholders who have a permanent establishment or a permanent representative in Luxembourg to which the Notes are attributable, are subject to Luxembourg wealth tax on such Notes, except if the Noteholder is (i) a resident or non-resident individual taxpayer, (ii) a holding company subject to the amended law of 31 July 1929, (iii) an undertaking for collective investment subject to the amended law of 20 December 2002, (iv) a securitisation company governed by the law of 22 March 2004 on securitisation, (v) a company governed by the law of 15 June 2004 on venture capital vehicles, (vi) a specialised investment fund subject to the law of 13 February 2007 or (vii) a family wealth management company subject to the law of 11 May 2007.

Other Taxes

Registration taxes and stamp duties

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, redemption or repurchase of the Notes.

Value added tax

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

Inheritance tax and gift tax

No estate or inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Gift tax may be due on a gift or donation of Notes if the gift is recorded in a deed passed in front of a Luxembourg notary or otherwise registered in Luxembourg.

Republic of Cyprus

Payments by Eledem

Taxation of payments made by Eledem (if applicable) will depend on the tax residency status of the Noteholders and nature of the payment (interest or principal on the Notes).

Tax residency and taxability

Individuals

An individual is considered to be a tax-resident of Cyprus if he/she is physically present in Cyprus for an aggregate more than 183 days in a year.

Companies

A company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus Income tax laws as to what constitutes “management and control”; but is rather a question of fact. It is understood that the definition according to the OECD model convention in relation to a place of effective management is the one to be followed by the Cyprus tax authorities. See “Risk Factors—Risks Relating to MHP—Changes in the application or interpretation of the Cypriot tax system or in the double tax treaty between Ukraine and Cyprus or a Cypriot subsidiary of the Issuer becoming tax resident in a jurisdiction other than Cyprus”.

Permanent Establishment

A permanent establishment is defined in Cyprus tax legislation as a fixed base of business through which the trade of the business is carried out fully or partially, and including a management base, a branch or an office, on the same basis as the definition set forth in the OECD model convention.

Taxability

All Cyprus tax residents are taxed on their worldwide income. Non-Cyprus tax residents are taxed on income derived from sources in Cyprus or from a business activity which is carried out through a permanent establishment in Cyprus.

Cyprus Withholding Taxes

Principal

Repayment of principal is not subject to withholding tax in Cyprus.

Interest Payments

Non-residents. Interest payments made to non-residents of Cyprus are not subject to any withholding taxes in Cyprus.

Residents/Permanent Establishments. Interest payments made to residents of Cyprus may be subject to special defence contribution taxes in Cyprus at a rate of 10% if such interest is characterised as “passive” income. If the interest is characterised as “active” income, it is not subject to any special defence contribution taxes.

Payments to Cyprus International Business Companies (“**IBCs**”) that have opted to be taxed under the transitional rules in Cyprus are not liable to such special defence contribution taxes for any interest paid up to and including 31 December 2005. From 1 January 2006, IBCs are subject to special contribution defence tax.

Taxation of Holders

Non-residents

Interest earned by non-tax residents of Cyprus is not subject to taxes in Cyprus. Resident Individuals

Interest income received is wholly exempt from income tax in the hands of a resident individual. However, such interest income is subject to special contribution defence tax at the rate of 10%, unless it

can be established that such interest income arises from the ordinary activities or closely related to the ordinary activities of the individual, in which case it will be exempt from this special contribution.

Resident Legal Entities/Permanent Establishments

Any interest received that is deemed to be of an “active” nature (i.e., arising from the ordinary activities or closely related to the ordinary activities of the business) will be subject to income tax in Cyprus at a rate of 10% (after deduction of expenses wholly and exclusively incurred for the production of income) and will be exempt from the special contribution defence tax.

Any interest received that is deemed to be of a “passive” nature will be subject to income tax at the rate of 10%, subject to a 50% exemption. Passive interest income is also subject to a 10% special contribution defence tax on the total amount.

United Kingdom

The following, which applies only to persons who are beneficial owners of the Notes, is a summary of the Issuer’s understanding of current law and Her Majesty’s Revenue and Customs (“**HMRC**”) practice in the United Kingdom as at the date of this Offering Memorandum relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Holders depends on their individual circumstances and may be subject to change in the future. Prospective Holders who may be subject to tax in the United Kingdom or in any other jurisdiction should seek their own professional advice.

Payments of Interest

Payments of interest on the Notes by the Issuer may be made without withholding on account of UK tax.

Any Paying Agent or other person through whom interest is paid or credited to, or by whom interest is received on behalf of a Holder (whether resident in the UK or elsewhere) may be required to provide information in relation to the payment and the Holder concerned to HMRC. “Interest” for this purpose includes any amount to which a person holding a deeply discounted security is entitled to on redemption of the security. However, in practice no information will be required to be provided in respect of such redemption amounts for the tax year 2010-2011. HMRC may communicate information to the tax authorities of other jurisdictions.

See also the paragraph below entitled “EU Savings Directive”, which describes obligations to provide reports of or withhold tax from payments of savings income under Council Directive 2003/48/EC.

United Kingdom Corporation Tax Payers

In general, Holders which are within the charge to United Kingdom corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open-ended investment companies) will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes. Holders that are investment trusts, venture capital trusts, authorised unit trusts and open-ended investment companies will be subject to the same taxation treatment in respect of the Notes as other Holders that are within the charge to United Kingdom corporation tax, other than with respect to capital profits, gains or losses as defined.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

A disposal (including a redemption) of Notes by an individual Holder who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

Taxation of discount

Notwithstanding the paragraph entitled “*Taxation of Chargeable Gains*” above, if the Notes constitute “deeply discounted securities” for the purpose of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 (“ITTOIA”) then any gain realised on redemption or transfer of the Notes by a Holder who is within the charge to United Kingdom income tax in respect of the Notes will generally be taxable as income but such Holder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Notes. The Notes would generally be treated as deeply discounted securities for these purposes if, as at the Issue Date, the amount payable on maturity or other occasion of redemption, other than an Optional Redemption or Redemption for Charges in Withholding Taxes, (“A”) exceeds, or may exceed, the issue price of the Notes by more than $A \times 0.5\% \times Y$, where Y is the number of years between the Issue Date and redemption.

Accrued income Scheme

On a disposal of Notes by a Holder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued incomes scheme set out in Part 12 of the Income Tax Act 2007, if that Holder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable. The accrued income scheme will not apply if the Notes are deeply discounted securities for the purpose of Chapter 8 of part 4 of ITTOIA, as to which see paragraph entitled “*Taxation of discount*” above.

Stamp Duty and Stamp Duty Reserve

No United Kingdom stamp duty or stamp duty reserve tax is payable on issue or transfer of the Notes.

United States

United States Federal Income Tax

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who purchase the Notes in the original offering at the original offering price, hold the Notes as capital assets and use the U.S. dollar as their functional currency. This discussion is not a complete description of all U.S. tax considerations relating to the ownership and disposition of the Notes. It does not address the tax treatment of prospective purchasers that hold the Notes in connection with a permanent establishment outside of the United States. It also does not address the tax treatment of investors subject to special rules, such as banks, dealers, traders that elect to mark to market, insurance companies, investors liable for the alternative minimum tax, U.S. expatriates, tax-exempt entities or persons holding the Notes as part of a hedge, straddle, conversion or other integrated financial transaction. This discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

THE FOLLOWING STATEMENTS ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NOTES UNDER THE LAWS OF CYPRUS, LUXEMBOURG, THE UNITED KINGDOM, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a “U.S. Holder” is a beneficial owner that is, for purposes of U.S. federal income taxation, (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) a trust subject to the control of a U.S. person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. federal income tax treatment of a partner in a partnership that acquires or holds the Notes generally will depend upon the status of the partner and the activities of the partnership. Partners in a partnership should consult their own tax advisors regarding the specific tax consequences to them of the partnership acquiring, owning and disposing of the Notes.

U.S. Holders should consult their own tax advisers about the proper tax treatment of the Exchange Offer and about special tax reporting or record keeping requirements that may apply to their participation in the Exchange Offer.

Interest

Interest on the Notes, including any Additional Amounts, generally will be includible in the gross income of a U.S. Holder in accordance with its regular method of tax accounting. The interest on the Notes generally will be ordinary income from sources outside the United States.

A U.S. Holder should have a tax basis in a Note that is greater than its principal amount and may elect to treat the excess as amortisable bond premium. If a U.S. Holder makes this election, it will reduce the amount required to be included in income each year with respect to interest on the Note by the amount of amortisable bond premium allocable to that year. If a U.S. Holder makes an election to amortise bond premium, it will apply to all the debt instruments of a U.S. Holder with bond premium that the electing U.S. Holder holds or acquires as of the beginning of that taxable year. A U.S. Holder may not revoke this election without the consent of the U.S. Internal Revenue Service (the “IRS”).

If a U.S. Holder does not elect to amortise bond premium, the amount of bond premium constitutes a capital loss when the bond matures.

Disposition

A U.S. Holder generally will recognise gain or loss on the sale, redemption or other disposition of a Note in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder’s adjusted tax basis in the Note. A U.S. Holder’s adjusted tax basis in a Note generally will be the amount the U.S. Holder paid for the Note less any amortisable bond premium principal payments previously received by the holder.

Gain or loss on disposition of a Note generally will be U.S. source capital gain or loss. A U.S. Holder will have long-term capital gain or loss if it has held the Note for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at preferential rates. Deductions for capital losses are subject to limitations.

Information reporting and backup withholding

Payments of interest and proceeds from the sale, redemption or other disposition of a Note made within the United States or through certain U.S.-related financial intermediaries may be reported to the IRS unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. A U.S. Holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding tax and a refund of any excess provided that the required information is furnished to the IRS. Prospective investors should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for establishing an exemption.

Recently enacted legislation requires certain U.S. Holders to report information with respect to their investment in Notes not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in Notes.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN NOTES IN LIGHT OF THE INVESTOR’S OWN CIRCUMSTANCES.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “EC Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in that

other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories, including Switzerland, have adopted similar measures to the EC Directive (a withholding system in the case of Switzerland).

The European Commission, the Council of the European Union and the European Parliament are considering a number of proposals to amend the EC Directive. If any of the proposed changes are made in relation to the EC Directive, they may amend or broaden the scope of the requirement described above.

NOTICE TO INVESTORS

The Issuer has not registered the Notes under the U.S. Securities Act and, unless so registered, the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Issuer is offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- to “qualified institutional buyers,” commonly referred to as “QIBs,” as defined in Rule 144A under the U.S. Securities Act in compliance with Rule 144A under the U.S. Securities Act; and
- in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

Each purchaser of Notes will be deemed to have represented and agreed as follows:

- (1) It understands and acknowledges that the Notes have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, including sales pursuant to Rule 144A under the U.S. Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act and any other applicable securities laws, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (5) below.
- (2) It is not an “affiliate” (as defined in Rule 144A under the U.S. Securities Act) of the Issuer, is not acting on behalf of the Issuer and is either:
 - (a) a QIB and is aware that any sale of these Notes to it will be made in reliance on Rule 144A and such acquisition will be for its own account or for the account of another QIB; or
 - (b) an institution that, at the time the offer to purchase the Notes was made and at the time the buy order for the Notes was originated, was outside the United States, within the meaning of Regulation S under the U.S. Securities Act.
- (3) It acknowledges that none of the Issuer, the Initial Purchasers or any person representing the Issuer or the Initial Purchasers has made any representation to it with respect to the Issuer or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It acknowledges that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this offering memorandum. It has had access to such financial and other information concerning the Issuer and the Notes as it deemed necessary in connection with its decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, the Issuer and the Initial Purchasers.
- (4) It is purchasing these Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or such investors’ ability to resell these Notes pursuant to Rule 144A, Regulation S or any other available exemption from registration available under the U.S. Securities Act. It agrees on its behalf and on behalf of any investor account for which it is purchasing these Notes, and each subsequent holder of these Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes prior to (a) the date which is one year (or such shorter period of time as permitted by Rule 144 under the U.S. Securities Act or any successor provision thereunder) after the later of May 15, 2009 and the last date on which the Issuer or any of the Issuer’s affiliates were the owner of such Notes (or any predecessor thereto) or (b) such later date, if any, as may be required by applicable law (the “**Resale Restriction Termination Date**”) only:
 - (a) to the Issuer;
 - (b) pursuant to a registration statement which has been declared effective under the U.S. Securities Act;

- (c) for so long as these Notes are eligible for resale pursuant to Rule 144A to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom it gives notice that the transfer is being made in reliance on Rule 144A;
- (d) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the U.S. Securities Act; or
- (e) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirements of law that the disposition of its property or the property of its investor account or accounts be at all times within its or such investors' control and in compliance with any applicable state securities laws.

The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each note will contain a legend substantially in the following form:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR ANY OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) AGREES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE U.S. SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS NOTE) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “RESALE RESTRICTION TERMINATION DATE”), OFFER, SELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE U.S. SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND (2) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE ISSUER, THE TRUSTEE AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THAT AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, THE TRUSTEE AND THE REGISTRAR IS COMPLETED AND DELIVERED BY THE TRANSFEROR. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.”

Each purchaser of Notes is also deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

- (5) It acknowledges that the Registrar will not be required to accept for registration of transfer any Notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the Registrar that the restrictions set forth herein have been complied with.
- (6) It acknowledges that:
 - (a) The Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of its acknowledgments, representations and agreements set forth herein and it agrees that, if any of its acknowledgments, representations or agreements herein cease to be accurate and complete, it will notify the Issuer and the Initial Purchasers promptly in writing; and
 - (b) if it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents with respect to each such account that:
 - (i) it has sole investment discretion; and
 - (ii) it has full power to make, and make, the foregoing acknowledgments, representations and agreements.
- (7) It agrees that it will give to each person to whom it transfers these Notes notice of any restrictions on the transfer of the Notes.
- (8) It acknowledges that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.
- (9) The purchaser understands that no action has been taken in any jurisdiction (including the United States, Luxembourg and Ukraine) by the Issuer or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for the purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth hereunder and under “Plan of Distribution.”

Cyprus

No offering material has been or will be submitted to the approval of the Cyprus Securities and Exchange Commission in connection with the offering of the New Notes, and consequently the New Notes will not be offered, advertised, distributed, marketed or sold, whether directly or indirectly, to the public in Cyprus, nor any offering material and any disclosure statements or information therein relating to the New Notes will be released, issued, published, communicated, advertised or disseminated to the public in Cyprus.

The New Notes may be offered, marketed or sold in Cyprus if addressed or sold to professional investors or in circumstances where the offer, marketing or sale of the exchange consideration is permitted under the Cyprus national law implementing the Prospectus Directive (Public Offer and Prospectus Law, No. 114 (I) of 2005) and Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 (Investment Services and Activities and Regulated Markets Law, No. 144 (I) of 2007).

This Exchange Offer Memorandum and Consent Solicitation Statement does not constitute investment advice or a recommendation under Cyprus law, nor does it constitute an offer of securities in Cyprus, it is not intended to be and must not be distributed to the information distribution channels or the public in Cyprus, nor (when distributed by a duly licensed investment firm established or operating through a branch in Cyprus) to any person in Cyprus other than a “professional client” as defined in the Law on Investment Services and Activities and Regulated Markets (Law No. 144 (I) 2007).

The material and disclosure statements may not be used for solicitation purposes for or in connection with the acquisition of the New Notes in circumstances under which is unlawful under Cyprus laws to make such an offer or solicitation.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of a purchase agreement (the “**Purchase Agreement**”) to be entered into by and among the Issuer, the Guarantors and the Initial Purchasers indicated below, the Initial Purchasers have agreed to purchase from the Issuer and the Issuer has agreed to sell the principal amount of New Notes set forth below.

<u>Initial Purchasers</u>	<u>Principal amount of New Notes</u>
Morgan Stanley & Co. International plc	U.S.\$115,500,000.00
UBS Limited	U.S.\$115,500,000.00
ING Bank N.V., London branch	U.S.\$66,000,000.00
Renaissance Securities (Cyprus) Limited	U.S.\$33,000,000.00
Total	U.S.\$330,000,000.00

Note: Sales in the United States will be made through affiliates of the Initial Purchasers listed above.

The Purchase Agreement provides that the obligations of the Initial Purchasers to purchase and accept delivery of the New Notes offered hereby are subject to the approval by the Issuer’s and their counsel of certain legal matters and to certain other conditions. The Initial Purchasers are obligated to purchase and accept delivery of all the New Notes if any are purchased.

The purchase price for the New Notes will be the initial offering price set forth on the cover page of this Offering Memorandum. After the initial offering of the New Notes, the Initial Purchasers may from time to time vary the offering price and other selling terms without notice. The Issuer will pay the Initial Purchasers a customary fee and will reimburse the Initial Purchasers for certain expenses related to the Offering.

The Issuer and the Guarantors have agreed, jointly and severally, to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments that the Initial Purchaser may be required to make in respect of any such liabilities. The Issuer and the Guarantors have agreed that, subject to certain exceptions, they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities issued or guaranteed by the Issuer or any Guarantor and having maturity of more than one year from the date of issue, without the prior written consent of the Initial Purchasers for a period of 180 days after the date of this Offering Memorandum. The Issuer and the Guarantors have also agreed that they will not at any time offer, sell, pledge, contract to sell, pledge or otherwise dispose of directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(2) of the U.S. Securities Act, Rule 144A under the U.S. Securities Act or Regulation S under the U.S. Securities Act to cease to be applicable to the offer and sale of the New Notes.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantors or the Initial Purchasers that would permit a public offering of the New Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Issuer, the Guarantors or the New Notes in any jurisdiction where action for that purpose is required. Accordingly, the New Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the New Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to purchase or a solicitation of an offer to sell in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about, and to observe any restrictions relating to, the Offering, the distribution of this Offering Memorandum and re-sales of the New Notes. See “Notice to Investors”.

The New Notes have not been registered under the U.S. Securities Act and may not be offered, sold or resold within the United States except in certain transactions exempt from or not subject to the registration requirements of the U.S. Securities Act. See “Notice to Investors”.

The Issuer and the Guarantors have been advised by the Initial Purchasers that the Initial Purchasers and their broker dealer affiliates propose to offer the New Notes for resale initially to (i) persons they reasonably believe to be “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act, or (ii) certain eligible persons outside the

United States in reliance on Regulation S under the U.S. Securities Act. Each purchaser of New Notes offered hereby in making the purchase will, by such purchase, be deemed to have made certain acknowledgements, representations, warranties and agreements as set forth under “Notice to Investors”.

Until the expiration of 40 days after the commencement of the Offering or the issue date of the New Notes, an offer or sale of any New Notes within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act.

Delivery of the New Notes will be made against payment on the New Notes on 29 April 2010, which is five business days following the date of pricing of the New Notes. Under Rule 15c6-1 under the U.S. Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the New Notes on the date of pricing will be required, by virtue of the fact that the New Notes initially will settle in more than three business days, to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the New Notes who wish to trade the New Notes on the date of pricing should consult their own advisers.

Each of the Initial Purchasers has represented and agreed that: (i) it has not offered or sold and prior to application for listing of the New Notes being made in accordance with Part VI of the FSMA will not offer or sell any New Notes in the United Kingdom by means of any document, other than to persons whose ordinary business involve them in acquiring, holding, managing or disposing of investments whether as principal or agent (except in circumstances which do not constitute an offer to the public); (ii) it has complied and will comply with all applicable provisions of the FSMA and the Prospectus Rules with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom and (iii) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the New Notes other than any document which consists of or any part of this Offering Memorandum or any other document required or permitted to be published by listing rules under Part VI of the FSMA, to a person who is of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

The New Notes are not eligible for initial offering and public circulation in Ukraine. The New Notes have not been and will not be registered with the State Commission for Securities and Stock Markets of Ukraine, the securities and exchange commission of Ukraine. The Initial Purchasers have agreed that the New Notes will not be offered or sold to or for the benefit of any persons resident, incorporated, established or having their usual residence in Ukraine or to any persons located within the territory of Ukraine unless and to the extent otherwise permitted under Ukrainian law.

The Initial Purchasers have agreed that the New Notes will not be offered, transferred or sold as part of their initial distribution to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

The Initial Purchasers have represented and agreed that they have not offered or sold, and will not offer or sell, the New Notes to the public in Luxembourg, directly or indirectly, and that no offering circular, prospectus, form of application, advertisement, communication or other material has been or will be distributed, or otherwise made available in, or form or published in, Luxembourg, except in circumstances which do not constitute an offer of securities to the public pursuant to the provisions of the Luxembourg act dated 10 July 2005 relating to prospectuses for securities.

The Initial Purchasers have not offered or sold and have agreed not to offer or sell any New Notes, directly or indirectly, in Japan or to or for the account of any resident of Japan except (a) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and Japan and (b) in compliance with any other application requirements of Japanese law.

The New Notes are a new issue of securities with no established trading market. Application has been made to the Financial Services Authority for the New Notes and the Exchange New Notes to be admitted to the Official List of the Financial Services Authority and application has been made to the London Stock Exchange for the New Notes to be admitted for trading on the London Stock Exchange’s Regulated Market. There can be no assurance as to the liquidity of any trading market for the New Notes, the ability of holders of the New Notes to sell their New Notes or the price at which holders would be able to sell their New Notes. In addition, any such market-making activity will be subject to the limits imposed by the

U.S. Securities Act and the U.S. Exchange Act. Accordingly, the liquidity of the trading market in the New Notes and the future trading price of the New Notes will depend on many factors.

Morgan Stanley & Co. International plc, UBS Limited, ING Bank N.V., London branch and Renaissance Securities (Cyprus) Limited and certain of their affiliates from time to time have performed, and in the future will perform, banking, investment banking, advisory, consulting and other financial services for MHP for which they may receive customary advisory and transaction fees and expense reimbursement.

LEGAL MATTERS

Certain legal matters in connection with the Offering and Exchange Offer will be passed upon for the Issuer with respect to U.S. and English laws by Freshfields Bruckhaus Deringer LLP and with respect to Ukrainian laws by Avellum Partners. Certain legal matters with respect to Luxembourg laws will be passed upon for the Issuer by Arendt & Medernach. Certain legal matters with respect to Cyprus laws will be passed upon for the Issuer by Mouaimis & Mouaimis. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to U.S. laws by Allen & Overy LLP and with respect to Ukrainian laws by Sayenko Kharenko.

INDEPENDENT AUDITORS

The Audited Consolidated Financial Statements prepared in accordance with IFRS as adopted by the European Union, included elsewhere in this Offering Memorandum, have been audited in accordance with International Standards on Auditing by PJSC “Deloitte & Touche USC”, independent auditors, 48-50A, Zhylyanska St., Kyiv, 01033 Ukraine (the “**Independent Reporting Auditors**”), as stated in their unqualified report appearing herein on page F-3.

For the purpose of compliance with the Prospectus Rules, the Independent Reporting Auditors have given and not withdrawn their written consent to the inclusion on page F-3 of this Offering Memorandum of their independent auditors’ report on the Audited Consolidated Financial Statements, and have authorised the contents of their said independent auditors’ report for purposes of Annex IX item 13.1 in Appendix 3 to the Prospectus Rules. The Independent Reporting Auditors have also accepted responsibility for the said independent auditors’ report as part of the Offering Memorandum and declared that they have taken all reasonable care to ensure that the information contained in the said report is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Offering Memorandum in compliance with Annex IX item 1.2 of the Prospectus Rules. As the offered Notes have not been and will not be registered under the U.S. Securities Act, the Independent Reporting Auditors have not filed and would not be required to file a consent under the U.S. Securities Act.

The Independent Reporting Auditors are a member of the Ukrainian Audit Chamber.

The statutory auditors of the Issuer are Deloitte S.A. (the “**Independent Statutory Auditors**”), independent certified public accountants under Luxembourg auditor independence rules as defined by the Institut des Réviseur d’Entreprises (IRE) code of ethics and its interpretations, with their address at 560, rue de Neudorf, L-2220 Luxembourg.

GENERAL INFORMATION

The Issuer

The Issuer is the ultimate holding company for the MHP group of companies and was incorporated for an unlimited duration under the laws of Luxembourg on 30 May 2006 as a société anonyme. Copies of its constitutional documents were filed with the Luxembourg Trade and Companies' Register on 13 June 2006 and have been published in the "Mémorial C, Recueil des Sociétés et Associations" on 4 August 2006. The Issuer's Articles were amended on 15 June 2006 and further amended on 27 September 2007, 4 June 2008, 6 June 2008 and 25 May 2009 and have been published in the "Mémorial C, Recueil des Sociétés et Association" on 18 August 2006, 2 November 2007, 20 June 2008, 8 July 2008 and 9 June 2009, respectively. The registered office of the Issuer is at 5, rue-Guillaume Kroll, L-1822 Luxembourg, Grand-Duchy of Luxembourg. The Issuer's telephone number is +352 26 4958 4219. The Issuer is registered with the Luxembourg Trade and Companies' Register under number R.C.S. Luxembourg B 116 838.

The purpose of the Issuer, as set out in article 4 of the Issuer's Articles is the holding of participations, in any form whatsoever, in Luxembourg and foreign companies, the acquisition by purchase, subscription, or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes and other securities of any kind, entering into leases, including financial leases, dealing in commodities that are not securities, acquisition of assets generally, selling assets generally, giving security, giving and receiving indemnities and security.

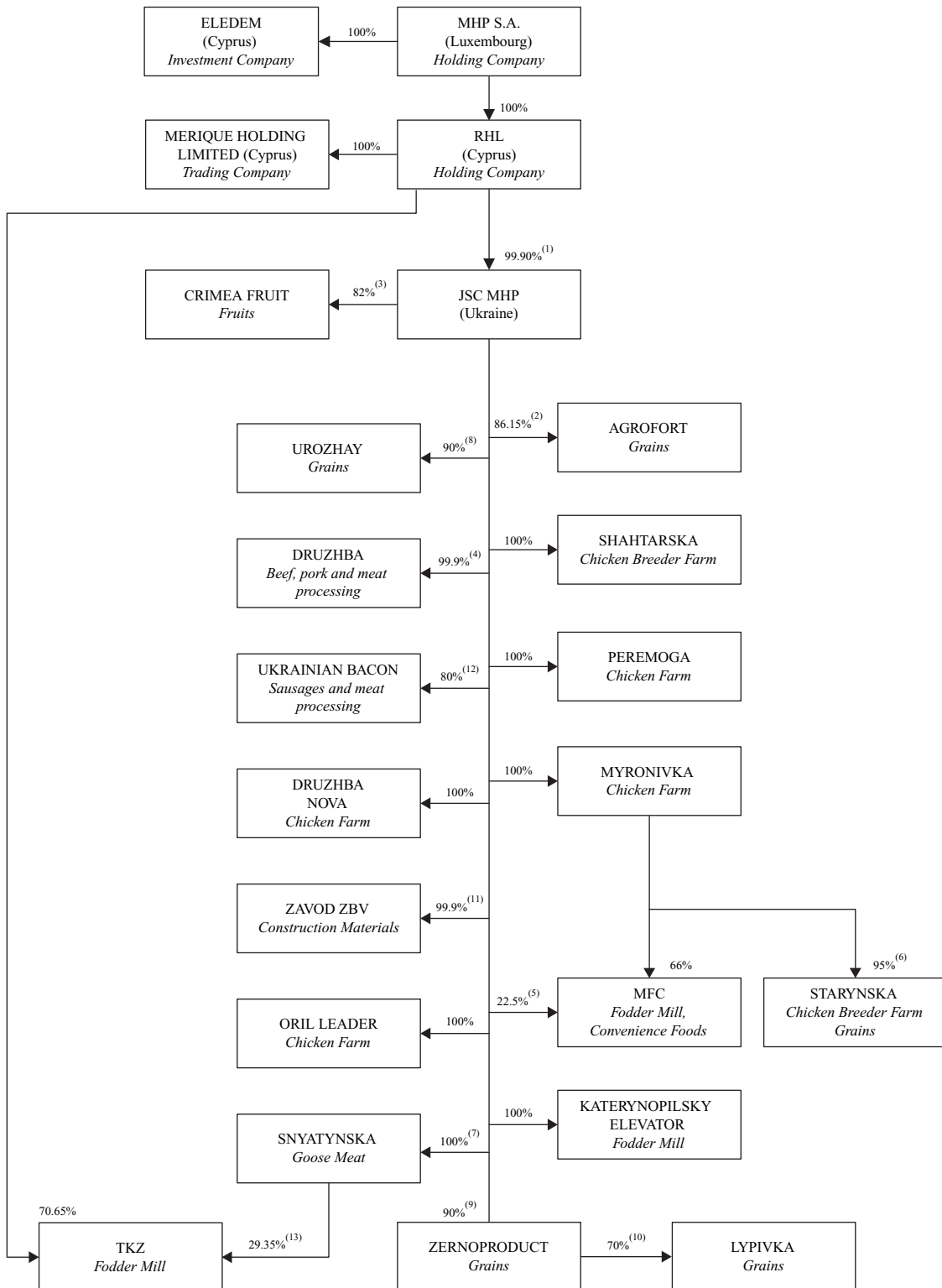
The Issuer may participate in the establishment and development of any financial, industrial or commercial enterprises, including trusts and unincorporated associations, and may render any assistance by way of loans, guarantees, security or otherwise to subsidiaries, affiliated companies or parent companies.

The Issuer may borrow in any form and issue bonds, preferred equity certificates, debentures, notes, commercial paper and guarantees, and enter into credit agreements, note purchase agreements, underwriting agreements, indentures, trust agreements or any other type of financing instrument or document or any hedge, swap or derivative related thereto.

In general, the Issuer may carry on any business or activity whatsoever, which it may consider expedient with a view to rendering profitable or enhancing directly or indirectly the value of the Issuer's undertaking in any of its properties or assets.

In general, it may take any controlling and supervisory measures and carry out any operation which it may deem useful in the accomplishment and development of its purpose.

The following diagram represents MHP’s corporate structure and certain ownership information relating to its subsidiaries, all as of the date of this Offering Memorandum:



Notes:

- (1) RHL owns 99.9071% of the share capital of JSC MHP, and the remaining shares are held by MFC, by Peremoga, by approximately 150 unaffiliated individuals and by Business Centre for Food Industry, a company affiliated with Mr. Kosyuk, by CJSC Selyanska Investytsiyna Kompania, a company unaffiliated with MHP, and Closed Mutual Fund “Sinkom-Fund” CJSC “Selyanski Investytsii”, a company unaffiliated with MHP.
- (2) JSC MHP owns 86.15% of the shares in Agrofort, and Mr. Volodymyr Onuka, the CEO of Agrofort, owns the remaining 13.85%.

- (3) Crimea Fruits has been consolidated in MHP since 31 March 2006. JSC MHP owns 82% of the share capital of Crimea Fruits and Mr. Ihor Lysyi, the CEO of Crimea Fruits, owns the remaining 17.9% and less than 0.5% of the share capital are held by five individuals and LLC "ALPHA-N LTD".
- (4) Druzhba has been consolidated in MHP since 31 March 2006. JSC MHP currently directly holds 99.945209% of the participatory interests in Druzhba. Approximately 0.054791% of the participatory interests in Druzhba are held by 9 individuals, none of whom owns more than 0.5%.
- (5) JSC MHP owns 22.4836% of the share capital of MFC and Myronivka holds 66.094% of the share capital of MFC. Less than 1% of the shares in MFC are held by 398 individuals. Approximately 10.93% of the shares in MFC are held by a number of unaffiliated legal entities and individuals, none of which owns more than 3%. An insignificant amount of MFC's shares is traded on the Ukrainian PFTS Stock Exchange.
- (6) Myronivka owns 94.9963% of the participatory interests in Starynska. Mr. Olexander Zubchuk, the CEO of Starynska, owns 5% of the participatory interests, while Ms. Oksana Omelyanenko, an individual unaffiliated with MHP, owns 0.0035% of the participatory interests in Starynska and Ms. Alla Vlasenko owns 0.0002% of the participatory interests in Starynska.
- (7) JSC MHP currently holds 100% of the charter capital in Snyatynska following the completion of its acquisition of 15% of the shares in Snyatynska on 6 June 2006 from an unaffiliated entity LLC Avis.
- (8) JSC MHP owns 90% of the shares in Urozhay. Mr. Oleg Vasetskiy, the CEO of Urozhay, owns the remaining 10% of the shares in Urozhay. However, the documents confirming the title of JSC MHP and Mr. Oleg Vasetskiy to Urozhay shares will be issued by Urozhay to its shareholders as soon as the procedures for the issuance of the shares as a result of its reorganisation are completed.
- (9) JSC MHP owns 90% of the shares in Zernoproduct, and Mr. Mykola Kucher, the CEO of Zernoproduct, owns the remaining 10%.
- (10) Zernoproduct holds 70% of the participatory interests in Lypivka. Agricultural Company Lypivka, an entity unaffiliated with MHP, owns the remaining 30%.
- (11) JSC MHP owns 99.906% of the participatory interests in Zavod ZBV, and LLC "Oblagroprombud" owns 0.094% of the participatory interests in Zavod ZBV.
- (12) JSC MHP currently owns 100% of the shares in Ukrainian Bacon. Pursuant to the sale and purchase agreement between JSC MHP and Mr. Baschinsky, dated 26 June 2008, as amended upon completion of the reorganisation of Ukrainian Bacon, JSC MHP has agreed to transfer 20% of the share capital of Ukrainian Bacon to Mr. Baschinsky. Ukrainian Bacon will issue the relevant legal documentation confirming JSC MHP's and Mr. Baschinsky's title to the shares as soon as the reorganisation is completed and the relevant shares are issued.
- (13) RHL owns 70.646% of the participatory interests in TZK, Snyatynska owns the remaining 29.354% of the participatory interests in TZK.

RHL

RHL was incorporated as a private limited company under the laws of Cyprus on 15 May 2006 to serve as a sub-holding company for the MHP group of companies. RHL has an issued share capital of EUR 50,000 and is wholly-owned by the Issuer. RHL owns 99.9071% of the shares in JSC MHP.

Significant Subsidiaries

The Issuer's significant subsidiaries (each of which is held indirectly) include the following:

<u>Company</u>	<u>Effective Interest</u>	<u>Registered Office</u>
OJSC Myronivsky Hliboproduct	99.9%	1 Elevatorna Str., Myronivka, Myronivskiy Region, Kyiv Oblast, 08800, Ukraine
OJSC Myronivskiy Zavod po Vygotovlennyyu Krup i Kombikormiv	88.5%	1 Elevatorna Str., Myronivka, Myronivskiy Region, Kyiv Oblast, 08800, Ukraine
CJSC Zernoproduct MHP	89.9%	1 Elevatorna Str., Myronivka, Myronivskiy Region, Kyiv Oblast, 08800, Ukraine
LLC Tavriyskiy Kombikormovyi Zavod	99.9%	1 Elevatorna Str., Myronivka, Myronivskiy Region, Kyiv Oblast, 08800, Ukraine
ALLC Starynska Ptahofabryka	94.9%	1 Lenina Str., village Myrne, Boryspilskiy Region, Kyiv Oblast, 08361, Ukraine
LLC Katerynopilsky Elevator	99.9%	47 Lenina, Yerky, Katerynopilskiy Region, Cherkasy Oblast, 20505, Ukraine
ALLC Druzhba Narodiv	99.9%	Village Petrivka, Krasnogvardiyskiy Region, AR Crimea, 97012, Ukraine
CJSC Crimea Fruit Company	81.9%	Village Petrivka, Krasnogvardiyskiy Region, AR Crimea, 97012, Ukraine
CJSC Ukrainian Bacon	79.9%	1 A Zelena Str., village Vodyane Druge, Kostyantynivskiy Region, Donetsk Oblast, 85180, Ukraine
SE Ptahofabryka Shahtarska Nova	99.9%	6 Pershotravneva Str., village Sadove, Shahtarskiy Region, Donetsk Oblast, 86251, Ukraine
SE Peremoga Nova	99.9%	68 Lesi Ukrainky Boulevard, village Budysche, Cherkasy Oblast, Cherkaskiy Region, 19620, Ukraine
CJSC Myronivska Ptahofabryka	99.9%	25 Zhovtneva Str., village Stepantsi, Kanivskiy Region, Cherkasy Oblast, 19031, Ukraine
LLC Ptahofabryka Snyatynska Nova	99.9%	34 Shyroka Str., Snyatyn, Snyatynskiy Region, Ivano-Frankivsk Oblast, 78300, Ukraine
CJSC with foreign investments Oril-Leader	99.9%	1 Akademika Starodubova Square, Dnipropetrovsk, 49050, Ukraine
CJSC Druzhba Narodiv Nova	99.9%	Village Petrivka, Krasnogvardiyskiy Region, AR Crimea, 97012, Ukraine
LLC Cherkasky Zavod ZBV	99.8%	169 Hromova Str., Cherkasy, Cherkasy Oblast, 18018, Ukraine
LLC Zernoproduct-Lypivka	62.9%	95 Naberezhna Str., Lypivka Village, Tomashpilsky Region, Vinnytska Oblast, 24205, Ukraine
CJSC Agrofort	86.1%	22 Nezalezhnosti Str., Office 30, Kaharlytskyi Region, Kyiv Oblast, 09200 Ukraine
CJSC Scientific-Production Firm Urozhay	89.9%	4 Shkilna Str., village Kirove, Korsun-Shevchenkivskiy Region, Cherkasy Oblast, 19421, Ukraine

Guarantors

The following of the Issuer's significant subsidiaries will act as Guarantors:

JSC MHP

Full and commercial name	OJSC "Myronivsky Hliboproduct"
Date and place of incorporation	Reorganised from CJSC "Myronivsky Hliboproduct" on 27 March 2006
Identification Code (EDRPOU No.)	No. 25412361

Duration of existence Indefinite

Legal address 1 Elevatorna Str., Myronivka, Myronivskiy Region, Kyiv Oblast, 08800, Ukraine
Telephone number: +38 (044) 207 00 00

Statutory Auditors Small-scale auditing enterprise LLC “Storno”,
app. 211, 43, Anna Akhmatova Street, Kyiv 02095, Ukraine

Members of the Administrative,
Management and Supervisory Bodies . Chairman of the Management Board: Yuriy A. Kosyuk
Members of the Management Board:
Viktoria B. Kapelyushnaya
Yevhen G. Shatokhin
Artur F. Futyma
Maxim E. Pisarev
Chief Accountant: Ganna V. Glebova

Principal Activities Holding Company

Myronivka

Full and commercial name CJSC “Myronivska Ptahofabryka” (the former name CJSC
“Torgoyi Dim” “Myronivskiy Khiboproduct”)

Date and place of incorporation Incorporated in Ukraine on 22 February 2000

Identification Code (EDRPOU No.) . No 30830662

Duration of existence Indefinite

Legal address 25 Zhovtneva Street, village Stepantsi, Kanivskiy Region,
Cherkasy Oblast, 19031, Ukraine
Telephone number: +38 (04736) 3 85 23

Statutory Auditors Small-scale auditing enterprise LLC “Storno”,
app. 211, 43, Anna Akhmatova Street, Kyiv 02095, Ukraine

Members of the Administrative,
Management and Supervisory Bodies . Yuriy A. Kosyuk—President
Vasiliy M. Bezhynets—Director
Mykola I. Koval—Deputy Director
Maryna M. Burenko—Deputy Director
Natalia I. Kononenko—Chief Accountant

Principal Activities Poultry production complex

Peremoga

Full and commercial name Subsidiary Enterprise “Peremoga Nova”

Date and place of incorporation Incorporated in Ukraine on 9 September 1999 (pursuant to a
decision of general shareholders’ meeting of CJSC
“Myronivsky Hliboproduct” adopted on 3 September 1999)

Identification Code (EDRPOU No.) . No. 30541899

Duration of existence Indefinite

Legal address 68 Lesi Ukrainky Str., village Budysche, Cherkaskiy Region,
Cherkasy Oblast, 19620, Ukraine
Telephone number: +38 (0472) 34 04 01

Statutory Auditors Not required

Members of the Administrative,
Management and Supervisory Bodies . Oleksander V. Gurov—Director
Olena S. Buryak—Chief Accountant

Principal Activities Poultry production complex

Druzhba Nova

Full and commercial name CJSC “Druzhba Narodiv Nova” date and place of incorporation Incorporated in Ukraine on 7 May 2001

Registration number (EDRPOU No.) No. 31398117

Duration of existence Indefinite

Legal address Village Petrivka, Krasnogvardiyskyi Region, AR Crimea, 97012, Ukraine
Telephone number: +38 (06556) 6 29 99

Statutory Auditors Small-scale auditing enterprise LLC “Storno”, app. 211, 43, Anna Akhmatova Street, Kyiv 02095, Ukraine

Members of the Administrative,
Management and Supervisory Bodies . Yuriy A. Kosyuk—President
Andriy V. Sidorenko—Executive Director
Natalia A. Kuzma—Chief Accountant

Principal Activities Poultry production complex

Oril Leader

Full and commercial name CJSC with foreign investments “Oril-Leader”

Date and place of incorporation Incorporated in Ukraine on 22 November 1996

Identification Code (EDRPOU No.) . No. 24426809

Duration of existence Indefinite

Legal address 1 Akademia Starodubova Square, Dnipropetrovsk, 49050, Ukraine
Telephone number: +38 (05634) 2 31 60

Statutory Auditors Private entrepreneur Lyudmyla I. Chemerys, tax identification number 2289000505, app. 32, 131 Gagarin avenue, 49050 Dnepropetrovsk, Ukraine

Members of the Administrative,
Management and Supervisory Bodies . Yuriy A. Kosyuk—President
Serhiy V. Mishchenko—Director
Iryna M. Havryshuk—Chief Accountant

Principal Activities Poultry production complex

MFC

Full and commercial name OJSC “Myronivskiy Zavod po Vygotovlennyyu Krup i Kombikormiv”

Date and place of incorporation Incorporated in Ukraine on 13 June 1996 (by the way of reorganisation of Lease Enterprise into OJSC)

Identification Code (EDRPOU No.) . No. 00951770

Duration of existence Indefinite

Legal address 1 Elevatorna Str., Myronivka, Myronivskyi Region, Kyiv Oblast, 08800, Ukraine
Telephone number: +38 (04574) 4 20 42

Statutory Auditors LLC “Auditing company “Stolichnaya kollegiya auditorov”,
identification number 32163093, block 14, 2/10 Melnikov Str.,
04050 Kyiv, Ukraine

Members of the Administrative,
Management and Supervisory Bodies Oleksander V. Zhukotanskiy—Chairman of the Management
Board
Serhiy I. Chepelyuk—First Deputy Chairman of the
Management Board
Maria A. Nikiforova—Second Deputy Chairman of the
Management Board
Yevhen O. Yablunivskiy—Third Deputy Chairman of the
Management Board
Inna G. Kolomiets—Chief Accountant

Principal Activities A multi-product production complex that includes a fodder
mill, a protein mill, five grain elevators and a cereals mill

Zernoproduct

Full and commercial name CJSC “Zernoproduct MHP”

Date and place of incorporation Incorporated in Ukraine on 7 September 2007 (reorganised
from LLC “Zernoproduct”)

Identification Code (EDRPOU No.) No. 32547211

Duration of existence Indefinite

Legal address 1 Elevatorna Str., Myronivka, Myronivskiy Region, Kyiv
Oblast, 08800, Ukraine
Telephone number: +38 (04343) 6 13 81

Statutory Auditors Small-scale auditing enterprise LLC “Storno”,
app. 211, 43, Anny Akhmatovoy Street, Kyiv 02095, Ukraine

Members of the Administrative,
Management and Supervisory Bodies Yuriy A. Kosyuk—President
Mykola I. Kucher—Director
Tetyana M. Galenda—Chief Accountant
Valeriy M. Noga—Deputy Director
Myhaylo A. Zalevskiy—Deputy Director

Principal Activities Corn, wheat, barley and sunflower farm

Druzhba

Full and commercial name Agricultural LLC “Druzhba Narodiv”

Date and place of incorporation Incorporated in Ukraine on 1 March 1995 (reorganised from
KSP AFK “Druzhba Narodiv”)

Identification Code (EDRPOU No.) No. 03759079

Duration of existence Indefinite

Legal address Village Petrivka, Krasnogvardiyskiy Region, AR Crimea,
97012, Ukraine
Telephone number: +38(06556) 6 19 90

Statutory Auditors Not required

Members of the Administrative, Management and Supervisory Bodies .	Yuriy A. Kosyuk—Director-general Oleksiy V. Shevchenko—Executive Director Kateryna O. Nikolayeva—Chief Accountant
Principal Activities	An integrated production facility for meat products
<i>Starynska</i>	
Full and commercial name	Agricultural LLC “Starynska Ptahofabryka”
Date and place of incorporation	Incorporated in Ukraine on 11 May 2000
Identification Code (EDRPOU No.) .	No 30925770
Duration of existence	Indefinite
Legal address	1 Lenin Street, village Myrne, Kyiv Region, 08361, Ukraine Telephone number: +38 (04595) 3 15 45
Statutory Auditors	Not required
Members of the Administrative, Management and Supervisory Bodies .	Oleksander M. Zubchuk—Director Nadiya V. Savchenko—Chief Accountant
Principal Activities	Breeder farm
<i>Shahtarska</i>	
Full and commercial name	Subsidiary Enterprise “Ptahofabryka Shahtarska Nova”
Date and place of incorporation	Incorporated in Ukraine on 11 March 2003
Identification Code (EDRPOU No.) .	No 32357598
Duration of existence	Indefinite
Legal address	6 Pershotravneva Street, village Sadove, Doneck Region, 86251, Ukraine Telephone number: +38 (06255) 9 61 65
Statutory Auditors	Not required
Members of the Administrative, Management and Supervisory Bodies .	Viktor S. Hrynyuk—Director Ganna M. Glyga—Chief Accountant
Principal Activities	Breeder farm
<i>Katerynopilsky Elevator</i>	
Full and commercial name	Limited Liability Company “Katerynopilsky Elevator”
Date and place of incorporation	Incorporated in Ukraine on 30 June 2004
Identification Code (EDRPOU No.) .	No 32580463
Duration of existence	Indefinite
Legal address	47 Lenin Street, village Yerki, Cherkasy Region, 20505, Ukraine Telephone number: +38 (04742) 3 01 60
Statutory Auditors	Not required
Members of the Administrative, Management and Supervisory Bodies .	Gennadiy L. Gadzovskyi—Director-general Serhiy V. Shevchuk—Deputy Director-general Tetyana S. Lysenko—Chief Accountant
Principal Activities	Fodder mill and feed grains storage facility

Each Guarantor accepts responsibility for the information contained in this Offering Memorandum in respect of it and its guarantee obligations and such information, to the best of such Guarantor's knowledge and belief (having taken all reasonable care to ensure that such is the case), is in accordance with the facts and does not omit anything likely to affect its import.

Except as discussed in "Directors, Corporate Governance and Management", there is no actual or potential conflict of interest between the duties of any of the members of the Administrative, Management and Supervisory Bodies of each Guarantor to each such Guarantor and their respective private interests.

Eledem

Eledem was incorporated as a private limited company under the laws of Cyprus on 16 May 2006 to serve as a holding and investment company for the MHP group of companies. Eledem has an issued share capital of EUR 1,000 and is wholly-owned by the Issuer.

Legal Information

Except as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Trends and Developments" on page 75, there has been no significant change in the financial or trading position or prospects of the Issuer or any of the Guarantors since 31 December 2009.

The issue of the Notes and their offer, sale and listing as well as the issue of this Offering Memorandum and the transactions referred to herein were duly authorised by the Board of Directors of the Issuer pursuant to a resolution adopted on 9 April 2010, by the Sole Director of Eledem pursuant to a resolution adopted on 12 April 2010, by the Supervisory Councils of each of JSC MHP and MFC pursuant to the respective minutes of the Supervisory Council Meetings each dated 12 April 2010, by the Participants of each of Katerynopilsky Elevator and Starynska pursuant to the respective minutes of the Participants Meetings each dated 12 April 2010, by each of the Presidents of Druzhba Nova, Oril Leader, Zernoproduct and Myronivka pursuant to the resolution each dated 12 April 2010, and by the General Director of Druzhba pursuant to the resolution adopted on 12 April 2010, and by the Chairman of the Management Board of JSC MHP with respect to the obligations undertaken by its subsidiaries Peremoga and Shahtarska pursuant to the resolutions adopted on 12 April 2010.

For as long as the Notes are outstanding, copies in English of the following documents will, when published, be available from the specified office of the London Paying Agent during usual business hours on any business day (Saturday, Sunday and public holidays excepted):

- (a) the Articles of the Issuer and each Guarantor in effect from time to time;
- (b) the Audited Consolidated Financial Statements for the years ended 31 December 2007, 2008 and 2009, together with the report of the Independent Reporting Auditors contained therein and the consent of the Independent Reporting Auditors to the inclusion of the review report herein;
- (c) this Offering Memorandum;
- (d) the Indenture (or a draft pending execution);
- (e) the Notes Purchase Agreement;
- (f) the Suretyship Agreement (or a draft pending execution);
- (g) the Proceeds Loan Agreements (or drafts pending execution);
- (h) the Proceeds Loan Assignments (or drafts pending execution);
- (i) the Exchange Offer and Consent Solicitation Memorandum; and
- (j) the Dealer Manager Agreement.

The address of the Independent Reporting Auditors of the issuer is as follows: PJSC "Deloitte & Touche USC", 48-50A, Zhylyanska St., Kyiv, 01033 Ukraine.

The addresses of the Bookrunners are as follows:

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

ING Bank N.V., London branch
60 London Wall
London EC2M 5TQ
United Kingdom

The Issuer is in full compliance with Luxembourg's corporate governance regime. JSC MHP is in full compliance with the Ukrainian corporate governance regime.

The Issuer and other entities within the MHP group (including each of the Guarantors) are not currently, and have not been involved in, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatening of which the Issuer is aware) that may have or have had in the twelve months before the date of this Offering Memorandum, a significant effect on the financial position or profitability of the Issuer and/or other entities within the MHP group. As of the date of this Offering Memorandum, the Issuer is not aware that any such proceedings are pending or threatening.

Except as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations", "Shareholders and Related Party Transactions", "Description of Other Indebtedness" and "Plan of Distribution", there is no other material contract, other than contracts entered into in the ordinary course of business, to which MHP is a party, for the two years immediately preceding publication of the Offering Memorandum, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by MHP, which contain any provisions under which MHP has any obligation or entitlement material to it at the date of this Offering Memorandum.

Listing Information

Application has been made to the Financial Services Authority for the Notes to be admitted to the Official List of the Financial Services Authority and application will be made to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market.

The total fees and expenses in connection with the admission of the Notes to trading on the London Stock Exchange's Regulated Market are expected to be approximately U.S.\$10,200,000.

Clearing Systems and Security Codes

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code, ISIN and CUSIP numbers of the Rule 144A Notes are 050290883, US55302TAB17 and 55302T AB1, respectively, and for the Regulation S Notes are 050290832, USL6366MAB92 and L6366M AB9, respectively.

MHP S.A. AND ITS SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<u>Page</u>
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007	F-2
INDEPENDENT AUDITORS' REPORT	F-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007	
Consolidated balance sheets	F-4
Consolidated statements of comprehensive income	F-5
Consolidated statements of changes in shareholders' equity	F-6
Consolidated statements of cash flows	F-7-F-8
Notes to the consolidated financial statements	F-9-F-60

MHP S.A. AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of the independent auditors set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of MHP S.A. and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as of 31 December 2009, 2008 and 2007, the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

In preparing the consolidated financial statements, management 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.

Management, within its competencies, is also responsible for:

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

The consolidated financial statements of the Group for the years ended 31 December 2009, 2008 and 2007 were authorized for issue by the Board of Directors on 30 March 2010.

On behalf of the Board

Yuriy Kosyuk/Chief Executive Officer

Viktoria Kapelyushnaya/Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of MHP S.A.:

We have audited the accompanying consolidated financial statements of MHP S.A. and its subsidiaries (jointly, the "MHP Group" or the "Group"), which comprise the consolidated balance sheets as of 31 December 2009, 2008 and 2007, and the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009, 2008 and 2007, and its consolidated financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



30 March 2010

MHP S.A. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

	Notes	2009	2008	2007
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment, net	8	627,678	517,564	624,756
Prepayments for property, plant and equipment		6,591	22,269	5,883
Deferred tax assets	9	10,183	2,047	2,705
Long-term VAT recoverable, net	10	20,670	9,112	1,742
Non-current biological assets	11	36,235	29,480	42,096
Other non-current assets	12	9,571	6,458	8,013
Total non-current assets		<u>710,928</u>	<u>586,930</u>	<u>685,195</u>
CURRENT ASSETS				
Inventories	13	92,260	38,118	42,645
Biological assets	11	112,978	84,095	90,785
Agricultural produce	14	66,227	42,765	31,680
Other current assets, net	15	15,297	15,370	16,321
Taxes recoverable and prepaid, net	16	66,958	46,338	45,400
Trade accounts receivable, net	17	43,377	31,531	20,363
Short-term bank deposits	18	7,632	25,342	10,055
Cash and cash equivalents	19	22,248	54,072	10,088
Total current assets		<u>426,977</u>	<u>337,631</u>	<u>267,337</u>
TOTAL ASSETS		<u><u>1,137,905</u></u>	<u><u>924,561</u></u>	<u><u>952,532</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Share capital	20	284,505	284,505	251,311
Additional paid-in capital		178,815	178,815	60,059
Revaluation reserve		18,781	9,410	9,410
Cumulative translation differences		(238,521)	(222,699)	6,292
Retained earnings		231,044	82,480	80,962
		<u>474,624</u>	<u>332,511</u>	<u>408,034</u>
MINORITY INTEREST		<u>19,784</u>	<u>13,706</u>	<u>11,372</u>
Total equity		<u>494,408</u>	<u>346,217</u>	<u>419,406</u>
NON-CURRENT LIABILITIES				
Long-term bank borrowings	21	56,043	57,456	65,878
Bonds issued	22	248,046	246,903	243,604
Long-term finance lease and vendor financing obligations	23	44,546	47,972	30,538
Other long-term payables		310	400	2,005
Deferred tax liabilities	9	8,970	6,160	6,506
Total non-current liabilities		<u>357,915</u>	<u>358,891</u>	<u>348,531</u>
CURRENT LIABILITIES				
Trade accounts payable	24	72,380	22,170	25,116
Accounts payable for property, plant and equipment	23	6,340	8,116	9,626
Other current liabilities	25	39,088	32,992	18,085
Short-term bank borrowings and current portion of long-term bank borrowings	21	139,790	130,241	73,855
Current portion of bonds issued	22	—	—	39,604
Interest accrued		3,526	3,520	4,102
Current portion of finance lease obligations	23	24,458	21,625	13,903
Deferred income	26	—	789	304
Total current liabilities		<u>285,582</u>	<u>219,453</u>	<u>184,595</u>
TOTAL LIABILITIES		<u>643,497</u>	<u>578,344</u>	<u>533,126</u>
CONTINGENCIES AND CONTRACTUAL COMMITMENTS	27			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>1,137,905</u></u>	<u><u>924,561</u></u>	<u><u>952,532</u></u>
On behalf of the Board				

Yuriy Kosyuk/Chief Executive Officer

Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages F-9 to F-60 form an integral part of these consolidated financial statements.
Independent auditors' report is on page F-3.

MHP S.A. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands, except per share data)

	Notes	2009	2008	2007
<i>Continuing operations</i>				
REVENUE	29, 5	711,004	802,910	474,437
Net change in fair value of biological assets and agricultural produce	5	35,236	6,327	14,241
COST OF SALES	30	(499,163)	(571,710)	(365,018)
GROSS PROFIT		247,077	237,527	123,660
Selling, general and administrative expenses	31	(80,972)	(80,495)	(51,599)
Government grants recognized as income	26	67,812	107,663	56,289
Other operating expenses	32	(15,209)	(10,022)	(7,275)
Other operating income		576	600	1,306
OPERATING PROFIT BEFORE LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT		219,284	255,273	122,381
Loss on impairment of property, plant and equipment	8	(1,304)	(11,767)	(10,238)
OPERATING PROFIT		217,980	243,506	112,143
Finance costs, net	33	(50,817)	(51,663)	(49,482)
Finance income		3,823	6,695	—
Foreign exchange losses, net	28	(23,580)	(187,127)	(13,059)
Other expenses		(712)	(784)	(734)
Gain realized from acquisitions and changes in minority interest in subsidiaries, net	2	5,413	4,482	1,285
Other income		1,408	1,085	669
OTHER EXPENSES, NET		(64,465)	(227,312)	(61,321)
PROFIT BEFORE TAX		153,515	16,194	50,822
Income tax benefit/(expense)	9	6,488	(1,279)	(428)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		160,003	14,915	50,394
<i>Discontinued operations</i>				
Loss for the year from discontinued operations, net of income tax	6	—	(9,722)	(3,601)
PROFIT FOR THE YEAR		160,003	5,193	46,793
<i>Other comprehensive income</i>				
Effect of revaluation of property, plant and equipment		11,912	—	11,124
Deferred tax charged directly to revaluation reserve		(2,541)	—	(2,250)
Cumulative translation difference		(15,822)	(228,991)	—
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(6,451)	(228,991)	8,874
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		153,552	(223,798)	55,667
PROFIT ATTRIBUTABLE TO:				
Equity holders of the Parent		148,564	1,518	40,870
Minority interest		11,439	3,675	5,923
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:				
Equity holders of the Parent		142,113	(227,473)	49,744
Minority interest		11,439	3,675	5,923
EARNINGS PER SHARE	36			
From continuing operations (USD per share):				
Basic and diluted		1.34	0.11	0.44
From continuing and discontinued operations (USD per share):				
Basic and diluted		1.34	0.01	0.41

On behalf of the Board

Yuriy Kosyuk/Chief Executive Officer

Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages F-9 to F-60 form an integral part of these consolidated financial statements.
Independent auditors' report is on page F-3.

MHP S.A. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

(in US Dollars and in thousands)

Attributable to Equity Holders of the Parent

	Share capital	Additional paid-in capital	Revaluation reserve	Cumulative translation difference	Retained earnings	Total	Minority interest	Total equity
1 January 2007	251,311	56,973	536	6,292	39,425	354,537	12,331	366,868
Profit for the year	—	—	—	—	40,870	40,870	5,923	46,793
Other comprehensive income	—	—	8,874	—	—	8,874	—	8,874
Total comprehensive income for the year	—	—	8,874	—	40,870	49,744	5,923	55,667
Effect of sale of subsidiary to the Principal Shareholder, net of income tax effect (Note 2)	—	430	—	—	—	430	(3,039)	(2,609)
Effect of sale of building to the Principal Shareholder, net of income tax effect (Note 7)	—	405	—	—	—	405	—	405
Acquisition and changes in minority interests in subsidiaries (Note 2)	—	2,251	—	—	—	2,251	(4,147)	(1,896)
Increase in minority interest due to increase in share capital of subsidiary	—	—	—	—	667	667	304	971
31 December 2007	251,311	60,059	9,410	6,292	80,962	408,034	11,372	419,406
Profit for the year	—	—	—	—	1,518	1,518	3,675	5,193
Other comprehensive income	—	—	—	(228,991)	—	(228,991)	—	(228,991)
Total comprehensive income for the year	—	—	—	(228,991)	1,518	(227,473)	3,675	(223,798)
Increase in share capital (net of issue costs) (Note 20)	33,194	118,756	—	—	—	151,950	—	151,950
Acquisition and changes in minority interest in subsidiaries (Note 2)	—	—	—	—	—	—	(1,341)	(1,341)
31 December 2008	284,505	178,815	9,410	(222,699)	82,480	332,511	13,706	346,217
Profit for the year	—	—	—	—	148,564	148,564	11,439	160,003
Other comprehensive income	—	—	9,371	(15,822)	—	(6,451)	—	(6,451)
Total comprehensive income for the year	—	—	9,371	(15,822)	148,564	142,113	11,439	153,552
Acquisition and changes in minority interest in subsidiaries (Note 2)	—	—	—	—	—	—	(5,361)	(5,361)
31 December 2009	284,505	178,815	18,781	(238,521)	231,044	474,624	19,784	494,408

On behalf of the Board

Yuriy Kosyuk/Chief Executive Officer

Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages F-9 to F-60 form an integral part of these consolidated financial statements.
Independent auditors' report is on page F-3.

MHP S.A. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

(in US Dollars and in thousands)

	2009	2008	2007
OPERATING ACTIVITIES			
Profit before tax from continuing and discontinued operations	153,515	6,472	47,187
Adjustments to reconcile profit to net cash provided by operations			
Depreciation of property, plant and equipment	51,677	57,394	44,814
Finance costs, net	50,817	51,663	49,482
Finance income	(3,823)	(6,695)	—
Net change in fair value of biological assets and agricultural produce	(35,236)	(4,945)	(11,095)
Loss on disposal of discontinued operation	—	6,193	—
Gain realized from acquisitions and changes in minority interest in subsidiaries, net	(5,413)	(4,482)	(1,285)
Non-operating foreign exchange loss, net	23,580	187,127	13,059
Change in allowance for irrecoverable amounts and direct write-offs	9,594	5,873	5,215
Impairment of property, plant and equipment	1,304	11,767	10,238
(Gain)/loss on disposal of property, plant and equipment	(8)	1,145	(660)
Other non-cash items	—	—	(777)
Operating profit before working capital changes	<u>246,007</u>	<u>311,512</u>	<u>156,178</u>
(Increase)/decrease in inventories	(55,679)	(12,106)	14,446
Increase in biological assets	(17,160)	(23,066)	(34,138)
Increase in agricultural produce	(8,767)	(44,603)	(8,879)
Decrease in natural gas stock	—	—	3,675
Decrease/(increase) in other current assets	439	(726)	(3,422)
Increase in taxes recoverable and prepaid	(42,340)	(39,759)	(150)
Increase in trade accounts receivable	(14,459)	(25,480)	(3,862)
(Decrease)/increase in other long-term payables	(66)	(2,523)	531
Increase/(decrease) in trade accounts payable	48,051	(976)	11,391
Increase in other current liabilities	13,049	6,278	11,491
(Decrease)/increase in deferred income	(792)	2,405	(344)
Cash generated by operations	<u>168,283</u>	<u>170,956</u>	<u>146,917</u>
Finance costs paid	(47,494)	(51,861)	(47,633)
Interest received	3,737	5,976	769
Income tax paid	(1,464)	(2,353)	(1,488)
Net cash generated by operating activities	<u>123,062</u>	<u>122,718</u>	<u>98,565</u>
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(135,257)	(179,695)	(100,149)
Purchases of other non-current assets	(3,445)	(2,688)	(3,398)
Proceeds from sale of building to the Principal Shareholder	—	—	4,005
Proceeds from disposal of subsidiary, net of cash disposed	—	(17)	4,798
Proceeds from disposals of property, plant and equipment	1,545	3,957	6,529
Purchases of non-current biological assets	(5,604)	(1,462)	(11,498)
Financial aid provided in relation to acquisition of subsidiaries and acquisition of minority interest in subsidiaries	—	(17,432)	—
Investments in short-term deposits	(7,608)	(57,711)	(11,442)
Withdrawals of short-term deposits	25,330	42,130	3,387
Loans provided to employees, net	(758)	(1,022)	(1,053)
Loans (provided to)/repaid by related parties, net	(70)	(136)	673
Contributions to share capital of subsidiaries by minority shareholders	—	—	737
Acquisition of subsidiaries, net of cash acquired	—	456	—
Net cash used in investing activities	<u>(125,867)</u>	<u>(213,620)</u>	<u>(107,411)</u>

MHP S.A. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

(in US Dollars and in thousands)

	2009	2008	2007
FINANCING ACTIVITIES			
Proceeds from loans received	447,037	274,618	156,084
Repayment of bank loans	(446,068)	(238,716)	(166,284)
Repayments of corporate bonds issued	—	(41,288)	—
Transaction costs related to corporate bonds issued	—	—	(2,106)
Finance lease payments	(22,957)	(18,544)	(13,175)
Proceeds from other financing received	6,366	13,846	—
Repayment of other financing	(12,554)	—	—
Issue of share capital, net of issue costs	—	151,950	—
Net cash (used in)/generated by financing activities	(28,176)	141,866	(25,481)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(30,981)	50,964	(34,327)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	54,072	10,088	44,415
Effect of translation to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(843)	(6,980)	—
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22,248	54,072	10,088

On behalf of the Board

Yuriy Kosyuk/Chief Executive Officer

Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages F-9 to F-60 form an integral part of these consolidated financial statements.
Independent auditors' report is on page F-3.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

(in US Dollars and in thousands)

1. DESCRIPTION OF THE BUSINESS

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

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

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

The Group has been undertaking a large-scale investment program on expansion of its poultry and related operations, with the first launch in 2007 of a major poultry meat production complex, Myronivska poultry farm. In June 2009, the Group completed the stage two of Myronivska poultry complex, and it reached full production capacity during the third quarter of the year, which contributed to the increased production of the poultry meat and related products.

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

Prior to 2007, the Group also had natural gas related operations which were discontinued in the first quarter of 2007 (see Note 6).

The primary subsidiaries and the principal activities of the companies forming the Group as of 31 December 2009, 2008 and 2007 were as follows (for details of changes see Note 2):

Operating entity	Country of registration	Year established/ acquired	Principal activity	Effective ownership interest*, %		
				2009	2008	2007
MHP S.A.	Luxembourg	2006	Holding company	Parent	Parent	Parent
RHL	Republic of Cyprus	2006	Sub-holding company	100	100	100
MHP	Ukraine	1998	Management, marketing and sales	99.9	99.9	99.8
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv (“MZVKK”)	Ukraine	1998	Fodder and sunflower oil production	88.5	88.5	84.7
Peremoga Nova (“Peremoga”)	Ukraine	1999	Chicken farm	99.9	99.9	99.8
Druzhba Narodiv Nova (“Druzhba Nova”)	Ukraine	2002	Chicken farm	99.9	99.9	99.8
Oril-Leader (“Oril”)	Ukraine	2003	Chicken farm	99.9	99.9	99.8
Tavriysky Kombikormovy Zavod (“TKZ”)	Ukraine	2004	Fodder production	99.9	99.9	99.9

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

1. DESCRIPTION OF THE BUSINESS (Continued)

Operating entity	Country of registration	Year established/ acquired	Principal activity	Effective ownership interest*, %		
				2009	2008	2007
Ptahofabryka Shahtarska Nova (“Shahtarska”)	Ukraine	2003	Breeder farm	99.9	99.9	99.8
Myronivska Pticefabrica (“Myronivska”)	Ukraine	2004	Chicken farm	99.9	99.9	99.8
Starynska Ptahofabryka (“Starynska”)	Ukraine	2003	Breeder farm	94.9	84.9	84.8
Ptahofabryka Snyatynska Nova (“Snyatynska”)	Ukraine	2005	Geese breeder farm	99.9	99.9	99.8
Zernoproduct	Ukraine	2005	Fodder grain cultivation	89.9	89.9	89.8
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage	99.9	99.9	99.8
Druzhba Narodiv (“Druzhba”)	Ukraine	2006	Cattle breeding, plant cultivation	99.9	99.0	95.3
Agrofirma Kyivska (“Kyivska”)	Ukraine	2006	Cattle breeding	N/A	N/A	75.8
Crimean Fruit Company (“Crimean Fruit”)	Ukraine	2006	Fruits and fodder grain cultivation	81.9	81.9	81.8
NPF Urozhay (“Urozhay”)	Ukraine	2006	Fodder grain cultivation	89.9	89.9	89.8
Agrofort (“AGF”)	Ukraine	2006	Fodder grain cultivation	86.1	86.1	86.0
Zernoproduct-Lypivka (“ZPL”)	Ukraine	2006	Fodder grain cultivation	63.0	63.0	62.9
Ukrainian Bacon	Ukraine	2008	Meat processing	79.9	79.9	N/A

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

2. CHANGES IN THE GROUP STRUCTURE

Detailed below is the information on acquisitions and disposals of subsidiaries, as well as changes in minority interests in subsidiaries of the Group during the years ended 31 December 2009, 2008 and 2007.

Acquisitions

Ukrainian Bacon

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

2. CHANGES IN THE GROUP STRUCTURE (Continued)

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

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

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

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

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

Disposal of subsidiaries

Kyivska

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

In December 2008, the Group sold its voting rights in Kyivska to a third party for a consideration of USD 974 thousand, receivable in cash during the period from 2011 till 2017. The fair value of the

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

2. CHANGES IN THE GROUP STRUCTURE (Continued)

consideration receivable was determined at USD 341 thousand which is the present value of the expected future cash flows.

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

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

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

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

ZZG

In April 2007, the Group sold its shares in ZZG, a company engaged in minks production, to its Principal Shareholder for a cash consideration of USD 4,798 thousand. The excess of the consideration received by the Group over the carrying value of the net assets of ZZG of USD 430 thousand was recorded in shareholders' equity.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

2. CHANGES IN THE GROUP STRUCTURE (Continued)

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

Property, plant and equipment, net	2,392
Non-current biological assets (mink)	3,006
Accounts receivable and other current assets, net	2,368
Current liabilities (including payables to the Group of USD 325)	(363)
Net assets disposed	7,403
Net assets attributable to 59% ownership in ZZG	4,368
Sale price	(4,798)
Gain recorded in shareholders' equity	(430)
Cash consideration received	4,798
Cash disposed	—
Net cash inflow arising on the disposal	4,798

The financial results of ZZG for the years ended 31 December 2007 were insignificant. ZZG assets and liabilities were presented in these consolidated financial statements within the other agricultural business segment.

Changes in minority interests in subsidiaries

TKZ

Prior to April 2007, the Group's ownership interest in TKZ was 29.4%. Even so, the Group consolidated TKZ as the Group exercised the power to govern the financial and operating policies of TKZ and obtained the benefits of TKZ's activities.

Subsequently, in April 2007 a subsidiary of the Group acquired 70.6% of the participatory interests in TKZ from Allied Tech LLC (Note 7) for cash consideration of USD 200 thousand. The acquisition of an additional 70.6% ownership interest in TKZ resulted in a decrease in minority interest of USD 2,451 thousand. The resulting excess of the book value of the minority interest over cash consideration paid of USD 2,251 thousand was recognized in these consolidated financial statements as an adjustment to shareholders' equity.

Druzhba

During the year ended 31 December 2007, through a series of transactions, the Group increased its effective ownership in Druzhba to 95.3%. These transactions resulted in the recognition of USD 1,285 thousand in these consolidated financial statements in *Gain realized from acquisitions and changes in minority interest in subsidiaries*.

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

2. CHANGES IN THE GROUP STRUCTURE (Continued)

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

MHP

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

MZVKK

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

Starynska

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

Other

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- IAS 1 “Presentation of Financial Statements” (Revised 2007);
- IAS 23 “Borrowing Costs” (Revised 2007);
- IFRS 8 “Operating Segments”;

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- IFRIC 13 “Customer Loyalty Programmes”;
- IFRIC 15 “Agreements for the Construction of Real Estate”;
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”;
- IFRIC 18 “Transfers of Assets from Customers”;
- Amendment to IFRS 7 “Financial Instruments: Disclosures” (March 2009);
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”—Puttable Financial Instruments and Obligations Arising on Liquidation;

In the current year, the Group also adopted amendments to a number of Standards resulting from annual improvements to IFRS that are effective for annual periods beginning on or after 1 January 2009.

IAS 1 “Presentation of Financial Statements” (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IAS 23 “Borrowing Costs” (Revised 2007) eliminated the option to expense all borrowing costs when incurred. Adoption of this Standard resulted in a change in the Group accounting policy on borrowing costs (see below), which is applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009.

IFRS 8 “Operating Segments” requires operating segments to be identified on the basis on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity’s system of internal financial reporting to key management personnel serving as the starting point for the identification of such segments. Adoption of this Standard did not result in a change in the Group’s reportable segments.

Adoption of other Standards and Interpretations did not have any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions and arrangements.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

<u>Standard/Interpretation</u>	<u>Effective for annual accounting period beginning on or after</u>
IFRS 1 “First-time Adoption of International Financial Reporting Standards (Revised November 2008)	1 July 2009
IFRS 3 “Business Combinations” (Revised January 2008)	1 July 2009
IFRS 9 “Financial Instruments: Classification and Measurement”	1 January 2013*
IFRIC 17 “Distributions of Non-cash Assets to Owners”	1 July 2009
IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”	1 July 2010*
Amendments to IAS 27 “Consolidated and Separate Financial Statements” (January 2008)	1 July 2009
Amendment to IAS 39 “Financial Instruments: Recognition and Measurement”—Eligible Hedged Items (July 2008)	1 July 2009
Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”	30 June 2009
Amendments to IAS 24 “Related Party Disclosures” (2009)	1 January 2011*

* Standards and Interpretations not endorsed by the European Union.

As of the date of authorization of these consolidated financial statements, there were also amendments to other Standards and Interpretation issued resulting from annual improvements to IFRS that are effective in future periods.

The management is currently evaluating the impact of the adoption of IAS 27 “Consolidated and Separate Financial Statements” and IFRS 3 “Business Combinations” (Revised January 2008) and IFRS 9 “Financial Instruments: Classification and Measurement”. For other Standards and Interpretations management anticipates that their adoption in future periods will have no material effect on the consolidated financial statements of the Group.

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

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

The results and financial position of the Group are translated into the presentation currency using the following procedures:

- Assets and liabilities for each consolidated balance sheet presented are translated at the closing rate as of the date of that balance sheet;
- Income and expenses for each consolidated statement of comprehensive income are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognized as a separate component of equity.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The relevant exchange rates were:

	As of 31 December 2009	Average for 2009	As of 31 December 2008	Average for 2008	As of 31 December 2007	Average for 2007
UAH/USD	7.9850	7.7916	7.7000	5.2693	5.0500	5.0500
UAH/EUR	11.4489	10.8736	10.8555	7.7114	7.4195	6.9192

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

All significant intercompany transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidation, unless 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 purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. The interest of minority shareholders of subsidiaries acquired from third parties is stated at the minority's proportion of the fair values of the assets and liabilities recognized. The excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition is recognized as goodwill.

Any excess of the fair value of the share in net identifiable assets over the cost of acquisition is recognized immediately in the consolidated statement of comprehensive income.

The acquisition of an additional interest in entities controlled by the Group are accounted for based on the fair value of the net assets at the date of acquisition.

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 reflected as a component of shareholders' equity.

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

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Construction in progress comprises costs directly related to 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 the construction in progress, on the same basis as for other property, plant and equipment items, 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.

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

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

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

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

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred tax assets and liabilities are offset when:

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

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 9).

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

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

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

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

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

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

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

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

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Biological Assets

(i) Broilers

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

(ii) Breeders

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

(iii) Cattle and pigs

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

(iv) Orchards

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

(v) Crops in fields

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

Agricultural Produce

(i) Dressed poultry, beef and pork

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

(ii) Fodder grain and fruits

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

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

Financial instruments—Financial assets and financial liabilities are recognized on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Segment information—Segment reporting is presented on the basis of management’s perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports 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 the resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

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

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

Borrowing costs—Borrowing costs include interest expenses, 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 the qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY (Continued)**

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 the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

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

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

Revaluation of property, plant and equipment—As described in Note 8, the Group applies revaluation model to measurement of grain storage facilities. At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether carrying amount differs materially from fair value. The Group carries out such review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period.

Based on the results of this review, the Group concluded that grain storage facilities had to be revalued based on fair value assessment by independent appraisers as of 31 December 2009 and 2007. The valuation was determined by reference to market-based evidence.

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.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY (Continued)**

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

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

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

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

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

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

VAT recoverable—Note 10 describes long-term VAT recoverable accumulated by the Group on its capital expenditures and investments in working capital. The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by set off against VAT liabilities with the state budget in future periods. Management classified VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within twelve months from the reporting date.

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

5. SEGMENT INFORMATION

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

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

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

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

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

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

Natural gas operations discontinued during the year ended 31 December 2007 were reported as separate segments under IAS 14. This segment no longer exists under the new segment reporting under IFRS 8. In addition, during the year ended 31 December 2008 the Group disposed of its shareholding in Kyivska, which was reported in Other agricultural operations segment. The segment information reported below does not include any amounts of these discontinued operations, which are described in more detail in Note 6.

The following table presents revenue, results of operations and certain assets and liabilities information regarding segments for the year ended 31 December 2009. Unallocated corporate assets comprise of assets that are not directly attributable to particular segment. Unallocated corporate liabilities

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in U.S. Dollars and in thousands)

5. SEGMENT INFORMATION (Continued)

comprise of interest-bearing liabilities and liabilities that are not directly attributable to a particular segment.

	Poultry and related operations	Other agricultural operations	Grain growing	Eliminations	Consolidated
External sales	577,143	88,109	45,752	—	711,004
Sales between business segments . .	22,438	1,496	37,673	(61,607)	—
Total revenue	<u>599,581</u>	<u>89,605</u>	<u>83,425</u>	<u>(61,607)</u>	<u>711,004</u>
Segment results	<u>196,594</u>	<u>3,234</u>	<u>35,301</u>	<u>—</u>	<u>235,129</u>
Unallocated corporate expenses . . .					(15,845)
Loss on impairment of property, plant and equipment					(1,304)
Other expenses, net					(64,465)
Profit before tax					<u>153,515</u>
OTHER INFORMATION:					
Segment assets	770,376	134,310	135,909		1,040,595
Unallocated corporate assets					97,310
Consolidated total assets					<u>1,137,905</u>
Segment liabilities	(96,609)	(8,089)	(4,076)		(108,774)
Unallocated corporate liabilities . . .					(534,723)
Consolidated total liabilities					<u>(643,497)</u>
Additions to property, plant and equipment*	125,892	9,864	6,162		141,918
Depreciation	37,193	5,473	9,011		51,677
Net change in fair value of biological assets and agricultural produce	16,670	704	17,862		35,236

* Additions to property, plant and equipment in 2009 (Note 8) include unallocated additions to property, plant and equipment in the amount of USD 31,887 thousand.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

5. SEGMENT INFORMATION (Continued)

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the years ended 31 December 2008 and 2007:

	2008					2007				
	Poultry and related operations	Other agricultural operations	Grain growing	Eliminations	Consolidated	Poultry and related operations	Other agricultural operations	Grain growing	Eliminations	Consolidated
External sales	660,031	93,102	49,777	—	802,910	384,865	51,082	38,490	—	474,437
Sales between business segments	20,362	1,268	17,653	(39,283)	—	10,756	573	30,182	(41,511)	—
Total revenue	680,393	94,370	67,430	(39,283)	802,910	395,621	51,655	68,672	(41,511)	474,437
Segment results	255,165	184	10,739	—	266,088	98,159	3,995	28,725	—	130,879
Unallocated corporate expenses					(10,815)					(8,498)
Loss on impairment of property, plant and equipment					(11,767)					(10,238)
Other expenses, net					(227,312)					(61,321)
Profit before tax					16,194					50,822
OTHER INFORMATION:										
Segment assets	562,485	122,430	120,287		805,202	684,952	158,434	80,207		923,593
Unallocated corporate assets					119,359					28,939
Consolidated total assets					924,561					952,532
Segment liabilities	(32,565)	(9,696)	(5,202)		(47,463)	(27,882)	(8,965)	(9,715)		(46,562)
Unallocated corporate liabilities					(530,881)					(486,564)
Consolidated total liabilities					(578,344)					(533,126)
Additions to property, plant and equipment	159,659	23,764	48,468		231,891	165,564	13,633	14,707		193,904
Depreciation	41,230	7,383	8,325		56,938	33,201	5,721	5,285		44,207
Net change in fair value of biological assets and agricultural produce	17,854	(1,137)	(10,390)		6,327	7,754	4,153	2,334		14,241

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

5. SEGMENT INFORMATION (Continued)

The Group's revenue from external customers by regions from which the revenue is derived was as follows during the years ended 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Ukraine	558,112	682,151	397,043
Europe	121,841	109,705	71,548
CIS	15,919	10,182	5,495
Asia	15,132	872	351
Total	<u>711,004</u>	<u>802,910</u>	<u>474,437</u>

6. DISCONTINUED OPERATIONS

Natural gas

During the year ended 31 December 2007, the Group ceased its natural gas operations.

The results of the natural gas operations segment for the years ended 31 December were as follows:

	<u>2007</u>
Revenue	8,872
Net change in fair value of natural gas in stock less estimated point-of-sale costs	(1,166)
Cost of sales	<u>(7,842)</u>
Gross loss	(136)
Other operating income	<u>—</u>
Operating loss	(136)
Income tax benefit (Note 9)	34
Loss for the year from discontinued operations	<u>(102)</u>

The net cash inflows from operating activities obtained by the Group in relation to the natural gas operations for the year ended 31 December 2007 comprised USD 6,164 thousand. No cash flows related to financing or investing activities from natural gas operations were incurred by the Group during the year ended 31 December 2007.

The carrying values of assets and liabilities associated with discontinued operation were nil as of 31 December 2007.

Kyivska

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

6. DISCONTINUED OPERATIONS (Continued)

The results of Kyivska for the years ended 31 December 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Revenue	3,922	3,213
Net change in fair value of biological assets and agricultural produce	(1,382)	(1,980)
Cost of sales	<u>(5,796)</u>	<u>(5,229)</u>
Gross loss	(3,256)	(3,996)
Other operating (expenses)/income	(114)	564
Operating loss	<u>(3,370)</u>	<u>(3,432)</u>
Other expenses, net	(159)	(67)
Income tax expense (Note 8)	<u>—</u>	<u>—</u>
	(3,529)	(3,499)
Loss on disposal of operation	<u>(6,193)</u>	<u>—</u>
Loss for the year from discontinued operations	<u>(9,722)</u>	<u>(3,499)</u>

During the years ended 31 December 2008 and 2007 the results from discontinued operations were attributable to equity holders of the Parent.

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

	<u>2008</u>	<u>2007</u>
Total assets	16,603	30,126
Total liabilities	10,056	48,342

The net cash flows incurred by the Group in relation to Kyivska for the years ended 31 December 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Operating activities	(3,019)	(1,535)
Investing activities	(867)	(1,265)
Financing activities	<u>3,893</u>	<u>2,453</u>
Net increase/(decrease) in cash and cash equivalents	<u>7</u>	<u>(347)</u>

7. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

The following companies and individuals are considered to be related parties to the Group:

<u>Name of the related party</u>	<u>Nature of relations with the Group</u>
Mr. Yuriy Kosyuk	Chief Executive Officer of MHP S.A. and the Principal Shareholder of the Group
WTI	Immediate parent, company owned by Mr. Yuriy Kosyuk
Mrs. Olena Kosyuk	Wife of Mr. Yuriy Kosyuk
Allied Tech LLP (United Kingdom) Allied Tech LLC (USA) Allied Tech Commerce LLP (United Kingdom) LLC Zolotoniske Zvirogospodarstvo ULL 15 (FÜNFZEHN) Beteiligungs und Management Roda Realizatsiyana Baza Merkaba LLC	Companies owned or controlled by Mr. Yuriy Kosyuk
Spector Agrofirma Berezanska Ptahofabryka	Companies owned by Merkaba LLC

In April 2007, Mr. Yuriy Kosyuk sold his shareholding in Roda. Accordingly, starting from June 2007 Roda and Realizatsiyana Baza ceased to be related parties to the Group.

In October 2008 Allied Tech LLC (USA) was liquidated.

Operating and financing activities

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements to and from entities under common control.

The revenues from sales to related parties for the years ended 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Agrofirma Berezanska Ptahofabryka	6,856	9,630	8,430
Other related parties	81	573	122
Total	<u>6,937</u>	<u>10,203</u>	<u>8,552</u>

During the years ended 31 December 2009, 2008 and 2007, the Group's sales to Agrofirma Berezanska Ptahofabryka mainly consisted of sales of mixed fodder and its components.

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

The purchases from related parties for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Spector	107	1,474	11
Agrofirma Berezanska Ptahofabryka	5	418	358
Other related parties	—	—	—
Total	112	1,892	369

The balances of trade accounts receivable due from related parties (Note 17) were as follows as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Agrofirma Berezanska Ptahofabryka	2,725	2,316	1,235
Other related parties	451	475	80
Total	3,176	2,791	1,315

The balances of advances received from related parties were as follows (Note 25) as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Allied Tech LLC	—	120	116
Allied Tech LLP	200	218	213
Total	200	338	329

The balances of short-term advances, finance aid to and promissory notes from related parties (Note 15) as of 31 December 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Merkaba LLC	606	190	193
Agrofirma Berezanska Ptahofabryka	351	670	408
Spector	48	16	656
Other related parties	56	100	166
Total	1,061	976	1,423

Other related party transactions

In June 2007, the Group sold to Mr. Yuriy Kosyuk a building with net book value of USD 3,460 thousand, which was used by the Principal Shareholder as a benefit in kind, for a cash consideration of USD 4,005 thousand. The difference between the sale price and net book value of the building at the date of transaction of USD 405 thousand (net of current income tax effect of USD 140 thousand) was recognized in the Group's consolidated financial statements as an adjustment to shareholders' equity.

In April 2007, the Group sold its participatory shareholding in ZZG to Mr. Yuriy Kosyuk for the cash consideration of USD 4,798 thousand (Note 2).

During the year ended 31 December 2007, the Group sold property, plant and equipment for USD 3,465 thousand to Agrofirma Berezanska Ptahofabryka.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

7. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

As of 31 December 2009, 2008 and 2007, the Group leased property, plant and equipment with the carrying value of USD 116 thousand, USD 150 thousand and USD 3,092 thousand, respectively, to its related parties under operating lease arrangements (Note 8).

For the years ended 31 December 2009, 2008 and 2007, lease payments received from the related parties under the operating lease agreements amounted to USD 35 thousand, USD 53 thousand and USD 116 thousand, respectively.

Compensation to key management personnel

Total compensation of the Group's key management personnel (excluding compensation to Mr. Yuriy Kosyuk) included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to USD 6,459 thousand, USD 9,281 thousand and USD 2,245 thousand for the years ended 31 December 2009, 2008 and 2007, respectively. Compensation to key management personnel consists of contractual salary and performance bonuses.

Key management personnel totaled 35, 32 and 29 individuals as of 31 December 2009, 2008 and 2007, respectively.

The aggregate amount of remuneration paid by the Group to the Chief Executive Officer Mr. Yuriy Kosyuk during the years ended 31 December 2009, 2008 and 2007 was USD 1,822 thousand, USD 1,804 thousand and USD 1,620 thousand, respectively, in the form of salary.

As of 31 December 2009, 2008 and 2007, Mr. and Mrs. Kosyuk received benefits in kind by use of certain assets with the carrying value of USD 287 thousand, USD 223 thousand and USD 3,014 thousand, respectively. Included in assets used by Mr. and Mrs. Kosyuk as of 31 December 2007 were vehicles with the carrying value of USD 2,807 thousand.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

8. PROPERTY, PLANT AND EQUIPMENT, NET

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

	<u>Buildings and structures</u>	<u>Grain storage facilities</u>	<u>Machinery and equipment</u>	<u>Utilities and infrastructure</u>	<u>Vehicles and agricultural machinery</u>	<u>Office furniture and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or valuation								
As of 1 January 2009	137,697	21,060	174,310	26,043	125,081	4,438	131,148	619,777
Additions	48,026	—	57,579	3,118	35,888	9,600	19,594	173,805
Disposals	(117)	—	(844)	(2)	(2,749)	(54)	(544)	(4,310)
Transfers	38,164	—	21,859	25,189	1,870	300	(87,382)	—
Increase from revaluation	—	10,739	—	—	—	—	—	10,739
Impairment loss	(941)	—	(153)	—	(210)	—	—	(1,304)
Translation difference	(5,473)	(870)	(8,053)	(1,591)	(5,310)	(387)	(3,085)	(24,769)
As of 31 December 2009	<u>217,356</u>	<u>30,929</u>	<u>244,698</u>	<u>52,757</u>	<u>154,570</u>	<u>13,897</u>	<u>59,731</u>	<u>773,938</u>
Accumulated depreciation								
As of 1 January 2009	19,250	445	41,377	6,488	32,728	1,925	—	102,213
Depreciation charge for the year	5,040	734	20,492	3,418	20,740	1,925	—	52,349
Eliminated on disposal	(40)	—	(285)	(2)	(1,966)	(45)	—	(2,338)
Eliminated on revaluation	—	(1,173)	—	—	—	—	—	(1,173)
Translation difference	(803)	(6)	(1,950)	(311)	(1,606)	(115)	—	(4,791)
As of 31 December 2009	<u>23,447</u>	<u>—</u>	<u>59,634</u>	<u>9,593</u>	<u>49,896</u>	<u>3,690</u>	<u>—</u>	<u>146,260</u>
Net book value								
31 December 2009	<u>193,909</u>	<u>30,929</u>	<u>185,064</u>	<u>43,164</u>	<u>104,674</u>	<u>10,207</u>	<u>59,731</u>	<u>627,678</u>
1 January 2009	<u>118,447</u>	<u>20,615</u>	<u>132,933</u>	<u>19,555</u>	<u>92,353</u>	<u>2,513</u>	<u>131,148</u>	<u>517,564</u>

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

8. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

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

	Buildings and structures	Grain storage facilities	Machinery and equipment	Utilities and infrastructure	Vehicles and agricultural machinery	Office furniture and equipment	Construction in progress	Total
Cost or valuation								
As of 1 January 2008	184,169	31,497	244,200	32,115	135,930	5,016	94,375	727,302
Additions	13,643	626	18,643	6,063	54,164	1,335	137,417	231,891
Disposals	(3,218)	(2)	(10,392)	(471)	(3,297)	(92)	—	(17,472)
Transfers	7,353	7	4,879	892	3,326	273	(16,730)	—
Disposal of Kyivska (Note 2)	(1,317)	(38)	(1,429)	(81)	(1,488)	(31)	(1,287)	(5,671)
Acquired through business combination (Note 2)	6,143	—	8,587	992	408	165	12,442	28,737
Impairment loss	(2,653)	—	—	—	—	—	(9,114)	(11,767)
Translation difference	(66,423)	(11,030)	(90,178)	(13,467)	(63,962)	(2,228)	(85,955)	(333,243)
As of 31 December 2008	137,697	21,060	174,310	26,043	125,081	4,438	131,148	619,777
Accumulated depreciation								
As of 1 January 2008	19,922	—	41,976	6,779	31,974	1,895	—	102,546
Depreciation charge for the year	10,011	686	22,798	3,052	19,937	1,108	—	57,592
Eliminated on disposal	(375)	—	(1,603)	(32)	(1,559)	(78)	—	(3,647)
Disposal of Kyivska (Note 2)	(410)	(25)	(659)	(25)	(820)	(23)	—	(1,962)
Translation difference	(9,898)	(216)	(21,135)	(3,286)	(16,804)	(977)	—	(52,316)
As of 31 December 2008	19,250	445	41,377	6,488	32,728	1,925	—	102,213
Net book value								
31 December 2008	118,447	20,615	132,933	19,555	92,353	2,513	131,148	517,564
1 January 2008	164,247	31,497	202,224	25,336	103,956	3,121	94,375	624,756

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

8. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

The following table represents movements in property, plant and equipment for the year ended 31 December 2007:

	Buildings and structures	Grain storage facilities	Machinery and equipment	Utilities and infrastructure	Vehicles and agricultural machinery	Office furniture and equipment	Construction in progress	Total
Cost or valuation								
As of 1 January 2007	98,447	14,129	133,011	16,507	95,029	2,568	189,543	549,234
Additions	20,454	1,651	50,863	3,435	41,586	1,756	74,159	193,904
Disposals	(4,564)	—	(6,901)	(119)	(959)	(77)	(210)	(12,830)
Transfers	77,852	1,465	74,320	12,681	882	834	(168,034)	—
Disposal of ZZG (Note 2)	(742)	—	(422)	(46)	(114)	(3)	(1,083)	(2,410)
Reclassifications	(2,912)	4,610	(1,698)	—	—	—	—	—
Increase due to revaluation	—	9,642	—	—	—	—	—	9,642
Impairment loss	(4,366)	—	(4,973)	(343)	(494)	(62)	—	(10,238)
As of 31 December 2007	184,169	31,497	244,200	32,115	135,930	5,016	94,375	727,302
Accumulated depreciation								
As of 1 January 2007	12,353	806	26,195	3,953	17,124	1,032	—	61,463
Depreciation charge for the year	8,375	558	17,563	2,885	15,776	925	—	46,082
Eliminated on disposal	(695)	—	(1,763)	(58)	(921)	(62)	—	(3,499)
Disposal of ZZG (Note 2)	(10)	—	(2)	(1)	(5)	—	—	(18)
Reclassifications	(101)	118	(17)	—	—	—	—	—
Eliminated from revaluation	—	(1,482)	—	—	—	—	—	(1,482)
As of 31 December 2007	19,922	—	41,976	6,779	31,974	1,895	—	102,546
Net book value								
31 December 2007	164,247	31,497	202,224	25,336	103,956	3,121	94,375	624,756
1 January 2007	86,094	13,323	106,816	12,554	77,905	1,536	189,543	487,771

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

8. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

As of 31 December 2009, included within property, plant and equipment were fully depreciated assets with the cost of USD 5,243 thousand (2008: USD 5,276 thousand; 2007: USD 5,123 thousand).

As of 31 December 2009, the Group's machinery and equipment with the carrying amount of USD 5,813 thousand (2008: USD 6,674 thousand, 2007: USD 11,274 thousand) were pledged as collateral to secure its banks borrowings (Note 21). As of 31 December 2009, vehicles and agricultural machinery with the carrying amount of USD 1,276 thousand (2008: USD 786 thousand, 2007: USD 2,121 thousand) were pledged to secure vendor-financing arrangements with foreign companies (Note 23).

As of 31 December 2009, 2008 and 2007 the net carrying amount of fixed assets held under finance lease agreements were USD 61,554 thousand, USD 57,476 thousand and USD 57,389 thousand, respectively.

Impairment assessment—The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, indicators of impairment were identified in 2009, 2008 and 2007 associated with the assets used in the production of goose meat and foie gras, assets used in production of convenience foods under the “Legko!” brand, and construction in progress represented by administrative office premises. As a result, the Group estimated the recoverable amount of these assets and determined that the carrying value exceeded the recoverable amount. Accordingly, during the year ended 31 December 2009 the Group has recognized impairment losses of USD 1,304 thousand (2008: USD 11,767 thousand, 2007: USD 10,238 thousand) for the difference in these amounts.

The additional impairment losses recognized in respect to assets used in goose meat and foie gras production during the year ended 31 December 2009 are attributable to reassessment of expected returns to this production line. In 2008 and 2007, the impairment losses recognized were in respect to assets used in the production of goose meat and foie gras and convenience foods under the “Legko!” brand, as well as to administrative office premises. These impairments were due to increased business risks and lower expected returns to the production lines, as well as decreased market prices for commercial properties as compared to the analysis performed during the year ended 31 December 2007.

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

Production line	2009		2008		2007	
	Discount rate used, %	Loss on impairment	Discount rate used, %	Loss on impairment	Discount rate used, %	Loss on impairment
Convenience foods	23.1	—	25.5	—	19.6	5,683
Goose meat and foie gras . . .	31.1	1,304	33.5	2,653	22.0	4,555
Administrative office premises	14.4	—	15.25	9,114	N/A	—
Total		1,304		11,767		10,238

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

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

Revaluation of grain storage facilities—During the years ended 31 December 2009 and 2007, the Group engaged independent appraisers to revalue its grain storage facilities. The effective dates of revaluations were 1 December 2009 and 2007, respectively. The valuations, which conformed to the International

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

8. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

Valuation Standards, were determined by reference to observable prices in an active market and recent market transactions. During revaluation as of 1 December 2007, the Group identified certain assets which related to the grain storage facilities, but were included into different groups. The related cost and accumulated depreciation of such assets in the amount of USD 4,610 thousand and USD 118 thousand, respectively, were transferred to the grain storage facilities group during the year ended 31 December 2007.

Due to economic instability, lack of transactions with similar assets in the market and, accordingly, a high degree of uncertainty surrounding the determination of fair values, no revaluation of grain storage facilities was performed as of 31 December 2008.

If the grain storage facilities were carried at cost, their net book value as of 31 December 2009 would be USD 12,549 thousand (2008: USD 13,321 thousand , 2007: USD 19,809 thousand).

Leased assets—As of 31 December 2009, 2008 and 2007, the Group leased property, plant and equipment (primarily, vehicles and agricultural machinery) with the carrying value of USD 116 thousand, USD 150 thousand and USD 3,092 thousand, respectively, to its related parties under operating lease arrangements (Note 7).

9. TAXATION

The majority of the Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the “FAT”) in accordance with the Law “On Fixed Agricultural Tax”. The FAT substitutes the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Municipal Tax, Natural Resources Usage Duty, Geological Survey Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely.

During the years ended 31 December 2009, 2008 and 2007, the Group companies which have the status of the Corporate Income Tax (the “CIT”) payers in Ukraine were subject to income tax at 25% rate. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2009, 2008 and 2007.

The components of income tax (benefit)/expense were as follows for the years ended 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current income tax expense	933	1,739	1,132
Deferred tax benefit	(7,421)	(460)	(738)
Income tax (benefit)/expense	<u>(6,488)</u>	<u>1,279</u>	<u>394</u>
Attributable to:			
Continuing operations	(6,488)	1,279	428
Discontinued operations (Note 6)	—	—	(34)
	<u><u>(6,488)</u></u>	<u><u>1,279</u></u>	<u><u>394</u></u>

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

9. TAXATION (Continued)

Reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2009, 2008 and 2007 was follows:

	2009	2008	2007
Profit before tax from continuing operations	153,515	16,194	50,822
Loss before tax from discontinued operations (Note 6)	—	(9,722)	(3,635)
Profit before income tax	153,515	6,472	47,187
Income tax expense at the tax rate of 25%	38,379	1,618	11,797
Tax effect of:			
Income generated by FAT payers (exempt from income tax) . .	(58,770)	(44,987)	(24,475)
Non-deductible expenses	10,419	12,286	5,952
Expenses not deducted for tax purposes	3,484	32,362	7,120
Income tax (benefit)/expense	(6,488)	1,279	394

As of 31 December 2009, 2008 and 2007 the Group did not recognize deferred tax assets arising from temporary differences of USD 13,936 thousand, USD 129,448 thousand and USD 28,480 thousand, respectively, as the Group does not intend to deduct respective expenses for tax purposes in future periods.

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

As of 31 December 2009, 2008 and 2007, deferred tax assets and liabilities comprised the following:

	2009	2008	2007
Deferred tax assets arising from:			
Advances received and other payables	5,736	2,099	2,209
Other current liabilities	5,168	1,030	310
Inventories	897	473	—
Expenses deferred in tax books	6,795	4,994	3,647
Other	—	—	64
Total deferred tax assets	18,596	8,596	6,230
Deferred tax liabilities arising from:			
Property, plant and equipment	(13,999)	(12,312)	(9,339)
Prepayments to suppliers	(3,384)	(241)	—
Inventories	—	(156)	(692)
Total deferred tax liabilities	(17,383)	(12,709)	(10,031)
Net deferred tax asset/(liability)	1,213	(4,113)	(3,801)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated balance sheet as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Deferred tax assets	10,183	2,047	2,705
Deferred tax liabilities	(8,970)	(6,160)	(6,506)
	1,213	(4,113)	(3,801)

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

9. TAXATION (Continued)

The movements in net deferred tax assets/(liabilities) for the years ended 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net deferred tax liabilities as of beginning of the year	(4,113)	(3,801)	(2,289)
Deferred tax benefit	7,421	460	738
Deferred tax on property, plant and equipment charged directly to revaluation reserve	(2,541)	—	(2,250)
Deferred tax liabilities arising on acquisition of subsidiaries (Note 2)	—	(2,630)	—
Translation difference	446	1,858	—
Net deferred tax assets/(liabilities) as of end of the year	<u>1,213</u>	<u>(4,113)</u>	<u>(3,801)</u>

10. LONG-TERM VAT RECOVERABLE, NET

As of 31 December 2009, 2008 and 2007 the balance of long-term VAT recoverable was accumulated on continuing capital expenditures and increased investments in working capital. The management expects that these balances will not be recovered within the twelve months after the balance sheet date.

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

11. BIOLOGICAL ASSETS

The balances of non-current biological assets were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Thousand units</u>	<u>Carrying amount</u>	<u>Thousand units</u>	<u>Carrying amount</u>	<u>Thousand units</u>	<u>Carrying amount</u>
Milk cows, boars, sows, units	11.5	9,560	10.2	6,033	12.7	8,305
Orchards, hectare . . .	2.4	23,478	2.11	19,934	2.11	27,100
Other non-current bearer biological assets		530		526		200
Total bearer non-current biological assets . . .		<u>33,568</u>		<u>26,493</u>		<u>35,605</u>
Non-current cattle and pigs, units	6.6	2,667	8.6	2,987	10.7	6,491
Total consumable non-current biological assets . . .		<u>2,667</u>		<u>2,987</u>		<u>6,491</u>
Total non-current biological assets . . .		<u>36,235</u>		<u>29,480</u>		<u>42,096</u>

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

11. BIOLOGICAL ASSETS (Continued)

The balances of current biological assets were as follows as of 31 December 2009, 2008 and 2007:

	2009		2008		2007	
	Thousand units	Carrying amount	Thousand units	Carrying amount	Thousand units	Carrying amount
Breeders held for hatchery eggs production, units . .	1,886	<u>35,845</u>	1,420	<u>19,323</u>	1,481	<u>23,710</u>
Total bearer current biological assets . . .		<u>35,845</u>		<u>19,323</u>		<u>23,710</u>
Broiler poultry, units .	24,258	36,957	14,297	23,126	12,830	22,798
Hatchery eggs, units .	19,334	6,310	12,690	3,866	12,841	5,786
Crops in fields, hectare	58	26,260	70	26,840	59	26,229
Cattle and pigs, units	44	6,714	43	10,386	48	10,538
Other current consumable biological assets . . .		<u>892</u>		<u>554</u>		<u>1,724</u>
Total consumable current biological assets		<u>77,133</u>		<u>64,772</u>		<u>67,075</u>
Total current biological assets . .		<u>112,978</u>		<u>84,095</u>		<u>90,785</u>

Other current consumable biological assets include geese and other livestock.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

11. BIOLOGICAL ASSETS (Continued)

The following table represents the changes in the carrying amounts of major biological assets during the years ended 31 December 2009, 2008 and 2007:

	Crops in fields	Orchards	Breeders held for hatchery eggs production	Broiler poultry	Milk cows, boars, sows	Non-current cattle and pigs	Cattle, pigs
As of 1 January 2007	10,980	11,840	12,501	18,270	4,753	9,872	4,245
Increase due to purchases	5,392	6,274	4,801	432	430	45	4,518
Gains/(losses) arising from change in fair value of biological assets less costs to sell	77,538	15,615	64,818	196,943	1,860	(3,530)	31,195
Transfer to consumable biological assets	—	—	(54,422)	54,422	(713)	(120)	833
Transfer to bearing non-current biological assets	—	—	—	—	2,341	562	(2,903)
Decrease due to harvest	(67,681)	(6,629)	(3,988)	(247,269)	(366)	(338)	(27,350)
As of 31 December 2007	26,229	27,100	23,710	22,798	8,305	6,491	10,538
Increase due to purchases	7,431	185	5,238	26	655	23	5,642
Gains arising from change in fair value of biological assets less costs to sell	92,705	15,239	80,106	353,078	41	1,240	36,091
Transfer to consumable biological assets	—	—	(72,914)	72,914	(953)	(63)	1,016
Transfer to bearing non-current biological assets	—	—	—	—	4,475	859	(5,334)
Decrease due to harvest	(93,553)	(13,335)	(6,917)	(414,073)	(3,361)	(3,916)	(32,336)
Translation difference	(5,972)	(9,255)	(9,900)	(11,617)	(3,129)	(1,647)	(5,231)
As of 31 December 2008	26,840	19,934	19,323	23,126	6,033	2,987	10,386
Increase due to purchases	7,323	1,434	6,635	14,720	265	672	1,710
Gains/(losses) arising from change in fair value of biological assets less costs to sell	118,257	8,578	66,934	216,613	3,127	(106)	19,801
Transfer to consumable biological assets	—	—	(50,617)	50,615	(825)	(59)	884
Transfer to bearing non-current biological assets	—	—	—	—	2,167	816	(2,983)
Decrease due to harvest	(125,193)	(5,631)	(5,313)	(266,928)	(899)	(1,542)	(22,796)
Translation difference	(967)	(837)	(1,117)	(1,189)	(308)	(101)	(288)
As of 31 December 2009	26,260	23,478	35,845	36,957	9,560	2,667	6,714

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

12. OTHER NON-CURRENT ASSETS

The balances of other non-current assets were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Packaging and containers	5,592	3,458	4,227
Land lease rights	854	572	872
Long-term loans to employees and related parties	708	95	265
Other investments	273	283	578
Other non-current assets	2,144	2,050	2,071
Total	<u>9,571</u>	<u>6,458</u>	<u>8,013</u>

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

13. INVENTORIES

The balances of inventories were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Components for mixed fodder production	70,568	21,748	20,793
Other raw materials	9,099	6,998	7,557
Spare parts	3,558	2,780	4,500
Packaging materials	3,283	3,437	3,185
Mixed fodder	2,156	1,590	2,785
Sunflower oil	2,020	510	793
Other inventories	1,576	1,055	3,032
Total	<u>92,260</u>	<u>38,118</u>	<u>42,645</u>

14. AGRICULTURAL PRODUCE

The balances of agricultural produce were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	Thousand tons	Carrying amount	Thousand tons	Carrying amount	Thousand tons	Carrying amount
Chicken meat	5.531	7,405	4.887	7,881	5.807	9,333
Other meat	N/A	3,167	N/A	3,394	N/A	1,460
Grain	396	48,641	306	24,695	67	12,394
Fruits, vegetables and other crops . . .	N/A	7,014	N/A	6,795	N/A	8,493
Total agricultural produce		<u>66,227</u>		<u>42,765</u>		<u>31,680</u>

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

15. OTHER CURRENT ASSETS, NET

The balances of other current assets were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Prepayments to suppliers and prepaid expenses	10,585	7,867	8,707
Short-term advances, finance aid to and promissory notes from related parties (Note 7)	1,061	976	1,423
Loans to employees	941	1,391	1,467
Government grants receivable (Note 26)	29	3,397	4,192
Other receivables	3,418	2,346	2,235
Less: allowance for irrecoverable amounts	(737)	(607)	(1,703)
Total	<u>15,297</u>	<u>15,370</u>	<u>16,321</u>

As of 31 December 2009, 2008 and 2007, government grants receivable were mainly represented by amounts due from the state for poultry and cattle processed during the last months of 2009, 2008 and 2007, respectively.

16. TAXES RECOVERABLE AND PREPAID, NET

Taxes recoverable and prepaid were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
VAT recoverable	69,890	49,736	47,726
Miscellaneous taxes prepaid	1,889	777	540
Less: allowance for irrecoverable VAT	(4,821)	(4,175)	(2,866)
Total	<u>66,958</u>	<u>46,338</u>	<u>45,400</u>

17. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Agricultural operations	37,481	26,663	19,941
Sunflower oil sales	3,432	2,957	180
Due from related parties (Note 7)	3,176	2,791	1,315
Less: allowance for irrecoverable amounts	(712)	(880)	(1,073)
Total	<u>43,377</u>	<u>31,531</u>	<u>20,363</u>

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

The Group also performs specific analysis of trade accounts receivable due from individual customers to determine whether any further adjustments are required to the allowance for irrecoverable amounts assessed on the percentages disclosed above. Based on results of such review as of 31 December 2009 the Group determined that trade accounts receivable on sales of poultry meat of USD 364 thousand were overdue (aged over 30 days) but do not require allowance for irrecoverable amounts.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

17. TRADE ACCOUNTS RECEIVABLE, NET (Continued)

The aging of trade accounts receivable that were impaired as of 31 December 2009, 2008 and 2007 was as follows:

	Trade accounts receivable			Allowance for irrecoverable amounts		
	2009	2008	2007	2009	2008	2007
Trade accounts receivable on sales of poultry meat:						
Over 30 but less than 270 days	546	280	21	(137)	(70)	(5)
Over 270 days	139	561	417	(139)	(561)	(417)
Total trade accounts receivable on sales of poultry meat	685	841	438	(276)	(631)	(422)
Trade accounts receivable on other sales:						
Over 60 but less than 360 days	397	268	418	(99)	(67)	(262)
Over 360 days	337	182	389	(337)	(182)	(389)
Total trade accounts receivable on other sales	734	450	807	(436)	(249)	(651)
Total	1,419	1,291	1,245	(712)	(880)	(1,073)

18. SHORT-TERM BANK DEPOSITS

Short-term bank deposits were as follows as of 31 December 2009, 2008 and 2007:

Currency	Effective rate	2009	Effective rate	2008	Effective rate	2007
UAH	16.14%	7,632	16.69%	1,248	9.77%	10,055
USD	—	—	10.98%	24,094	—	—
Total		7,632		25,342		10,055

As of 31 December 2009, the balances of short-term deposits with UniCreditBank for the total amount of USD 7,619 thousand represented security for bank guarantees issued against the Group's liabilities under grain financing arrangements (Note 24, 25).

19. CASH AND CASH EQUIVALENTS

The balances of cash and cash equivalents were as follows as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Cash in hand and with banks	22,248	18,975	10,088
Short-term deposits with banks	—	35,097	—
Total	22,248	54,072	10,088

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

Currency	Effective rate	2008
USD	11.71%	32,500
UAH	18.00%	2,597
		35,097

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

20. SHARE CAPITAL

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of shares authorized for issue	170,000,000	170,000,000	170,000,000
Number of shares issued and fully paid	110,770,000	110,770,000	100,020,000

The authorized share capital as of 31 December 2009, 2008 and 2007 was EUR 340,000 thousand represented by 170,000,000 shares with par value of EUR 2 each.

As of 31 December 2007 the issued share capital of MHP S.A. was EUR 200,040 thousand (USD 251,311 thousand) and consisted of 100,020,000 ordinary shares. The share capital contributions as of 31 December 2007 were fully paid in cash for USD 50 thousand and by exchange of 100% shareholding in RHL. The fair value of the exchange was USD 251,261 thousand, determined by an independent appraiser as of the date of the contribution.

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

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

21. BANK BORROWINGS

The following table summarizes bank loans and credit lines outstanding as of 31 December 2009, 2008 and 2007:

<u>Bank</u>	<u>Currency</u>	<u>Weighted average interest rate</u>	<u>2009</u>	<u>Weighted average interest rate</u>	<u>2008</u>	<u>Weighted average interest rate</u>	<u>2007</u>
Foreign banks	EUR	3.24%	81,873	5.43%	78,697	4.77%	86,597
Ukrainian banks	USD	8.86%	94,000	6.78%	109,000	8.71%	10,799
Ukrainian banks	UAH	23.82%	19,960		—	12.51%	42,337
			<u>113,960</u>		<u>109,000</u>		<u>53,136</u>
Total bank borrowings .			<u>195,833</u>		<u>187,697</u>		<u>139,733</u>
<i>Less:</i>							
Short-term bank borrowings and current portion of long-term bank borrowings			<u>(139,790)</u>		<u>(130,241)</u>		<u>(73,855)</u>
Total long-term bank borrowings			<u>56,043</u>		<u>57,456</u>		<u>65,878</u>

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. The interest on the

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

21. BANK BORROWINGS (Continued)

borrowings drawn with Ukrainian banks is payable on a monthly or quarterly basis. Interest on borrowings drawn with foreign banks is payable semi-annually.

Term loans and credit line facilities were as follows as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Credit lines	129,103	132,560	84,973
Term loans	66,730	55,137	54,760
Total bank borrowings	<u>195,833</u>	<u>187,697</u>	<u>139,733</u>

The following table summarizes fixed and floating interest rates bank loans and credit lines held by the Group as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Floating interest rate	148,447	147,941	102,348
Fixed interest rate	47,386	39,756	37,385
Total	<u>195,833</u>	<u>187,697</u>	<u>139,733</u>

Bank loans and credit lines outstanding as of 31 December 2009 were repayable as follows:

	<u>2009</u>		
	<u>Foreign</u>	<u>Ukrainian</u>	<u>Total</u>
Within one year	25,830	113,960	139,790
In the second year	25,090	—	25,090
In the third to fifth year inclusive	23,958	—	23,958
After five years	6,995	—	6,995
Total	<u>81,873</u>	<u>113,960</u>	<u>195,833</u>

As of 31 December 2009, the Group had available undrawn facilities of USD 6,413 thousand. These undrawn facilities expire during the period from January 2010 until October 2010.

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

As of 31 December 2009, the Group had borrowings of USD 9,980 thousand that were secured. These borrowings were secured by property, plant and equipment with the carrying amount of USD 5,813 thousand (Note 8).

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

22. BONDS ISSUED

Bonds issued and outstanding as of 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
10.25% Senior Notes due in 2011	250,000	250,000	250,000
14% Druzhba Nova Bonds due in 2008	—	—	39,604
Unamortized premium on bonds issued	—	—	116
Unamortized debt issue cost	(1,954)	(3,097)	(6,512)
Total	<u>248,046</u>	<u>246,903</u>	<u>283,208</u>
Less: Current portion of bonds issued	—	—	(39,604)
Total long-term portion of bonds issued	<u>248,046</u>	<u>246,903</u>	<u>243,604</u>

10.25% Senior Notes

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

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

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

As of 31 December 2009, the fair value of the Senior Notes issued by the Group was equal to USD 228,875 thousand (2008: USD 120,875 thousand; 2007: USD 252,500 thousand).

14% Druzhba Nova Bonds

In September 2006, Druzhba Nova issued 200,000 of 14% coupon bonds with nominal value of USD 39,604 thousand at a premium of USD 360 thousand, due in August 2008. Interest on the bonds was payable quarterly in arrears. The bonds were not subject to any restrictive covenants. The effective interest rate on the bonds was 14.31% per annum. As of 31 December 2007, the fair value of Druzhba Nova bonds was equal to USD 40,966 thousand. The bonds were fully repaid during the year ended 31 December 2008.

The fair value of the notes and bonds was determined based on market quotations.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

23. LONG-TERM FINANCE LEASE AND VENDOR FINANCING OBLIGATIONS

Long-term finance lease and vendor financing obligations as of 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Finance lease obligations, long-term portion	44,546	47,972	30,018
Long-term payables for property, plant and equipment under vendor financing arrangements	—	—	520
Total	<u>44,546</u>	<u>47,972</u>	<u>30,538</u>

The long-term finance lease obligations represent amounts due under agreements for lease of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2009, the weighted average interest rates on finance lease obligations were 8.61% and 7.81% for finance lease obligations denominated in EUR and USD, respectively.

As of 31 December 2009, 2008 and 2007, the current portion of long-term payables for property, plant and equipment was included in current accounts payable for property, plant and equipment as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Long-term payables for property, plant and equipment	—	—	1,534
Short-term payables for property, plant and equipment	6,340	8,116	8,612
<i>Less:</i>			
Long-term portion of payables for property, plant and equipment	—	—	(520)
Total	<u>6,340</u>	<u>8,116</u>	<u>9,626</u>

The long-term payables for property, plant and equipment mainly represent vendor financing arrangements with foreign and Ukrainian companies. As of 31 December 2007, the weighted average interest rates on such payables were 11.0% and 9.9% for payables denominated in EUR and UAH, respectively.

As of 31 December 2009, the Group's property, plant and equipment with net book value of USD 1,276 thousand (2008: USD 786 thousand, 2007: USD 2,121 thousand) were pledged as collateral under vendor financing arrangements with foreign companies (Note 8).

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

23. LONG-TERM FINANCE LEASE AND VENDOR FINANCING 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 2009, 2008 and 2007:

	Minimum lease payments			Present value of minimum lease payments		
	2009	2008	2007	2009	2008	2007
Payable within one year	31,094	28,928	18,266	24,458	21,625	13,903
Payable in the second year	25,535	24,697	14,931	21,309	19,632	11,685
Payable in the third to fifth year inclusive	26,187	32,408	21,810	23,237	27,776	18,333
Payable after fifth year	—	684	—	—	564	—
	82,816	86,717	55,007	69,004	69,597	43,921
<i>Less:</i>						
Future finance charges	(13,812)	(17,120)	(11,086)	—	—	—
Present value of lease obligations . . .	69,004	69,597	43,921	69,004	69,597	43,921
<i>Less:</i>						
Current portion				(24,458)	(21,625)	(13,903)
Finance lease obligations, long-term portion				44,546	47,972	30,018

24. TRADE ACCOUNTS PAYABLE

Trade accounts payable were as follows as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Trade accounts payable to third parties	72,361	22,145	25,077
Payables due to related parties	19	25	39
Total	72,380	22,170	25,116

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

25. OTHER CURRENT LIABILITIES

Other current liabilities were as follows as of 31 December 2009, 2008 and 2007:

	2009	2008	2007
Accrued payroll and payroll related taxes	25,268	15,151	11,940
Advances from and other payables due to third parties	3,629	2,470	4,362
Advances from related parties (Note 7)	200	338	329
Payables on other financing arrangements	6,370	12,484	—
Other payables	3,621	2,549	1,454
Total	39,088	32,992	18,085

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

25. OTHER CURRENT LIABILITIES (Continued)

financing arrangements represented credit facility received at a fixed rate of 8.75% with maturity on 30 June 2009.

26. GOVERNMENT GRANTS INCOME

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

The government grants recognized by the Group as income during the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009	2008	2007
VAT refunds	65,606	59,338	21,365
Fruits and vine cultivation	1,145	468	2,417
Processing of live animals	780	46,146	29,641
Selection and genetic programs in breeding	12	293	1,198
Other government grants	269	1,418	1,668
Total	67,812	107,663	56,289

VAT refunds for agricultural industry—According to the Law of Ukraine “On the Value Added Tax”, companies that generated not less than 50% of gross revenues for the previous tax year from sales of own agricultural products are entitled to refunds of VAT on sales of agricultural products. The VAT on sales, net of VAT paid on purchases, is transferred to a special account, restricted to payments for goods and services related to agricultural activities. The corresponding VAT liability to be refunded at each balance sheet date is recorded in the Group’s consolidated financial statements as deferred income, as the income recognition criteria is considered to be met only when payments are made. As of 31 December 2008, the balance of deferred income related to VAT refunds was USD 789 thousand (2007: USD 304 thousand).

Government grants on fruits and vine cultivation—In accordance with the Law “On State Budget of Ukraine” two companies of the Group were entitled to receive grants for the years ended 31 December 2009, 2008 and 2007 for creation and cultivating of orchards, vines and berry-fields.

Government grants on processing of live animals—During the years ended 31 December 2008 and 2007, the Law “On State Budget of Ukraine” established subsidies for companies engaged in processing of live animals (chicken and other poultry, cows and pigs). This subsidy was provided to the Group’s chicken farms in the form of payment for each item of poultry slaughtered at the farms. This subsidy was also available to the Group’s beef and pork processing facilities. Starting from 1 January 2009, the Group did not receive these subsidies due to the government suspended this type of subsidies.

Government grants related to selection and genetics programs in breeding—Two of the Group companies received grants from the state budget for the purpose of financing selection and genetics programs in poultry breeding. This subsidy is provided to the Group’s breeding farms in the form of compensation of expenses in connection with selection and genetics poultry breeding. The eligibility, application and tender procedures related to the grants are carried out by the Ministry of Agrarian Policy of Ukraine and Ukrainian Agricultural Academy of Sciences.

Other government grants—Other government grants recognized as income during the years ended 31 December 2009, 2008 and 2007 mainly comprised of subsidies related to crop growing.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

26. GOVERNMENT GRANTS INCOME (Continued)

In addition to the government grant income recognized by the Group, the Group receives a grant to compensate agricultural producers for costs used to finance the operations. Agricultural producers are entitled to compensation of finance costs incurred on bank borrowings in accordance with the Law “On State Budget of Ukraine” during the years ended 31 December 2009, 2008 and 2007. The eligibility, application and tender procedures related to the grants were defined and controlled by the Ministry of Agrarian Policy of Ukraine.

These grants were recognized as a reduction in the associated finance costs and during the years ended 31 December 2009, 2008 and 2007 were USD 900 thousand, USD 2,406 thousand and USD 2,141 thousand, respectively (Note 33).

27. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Ongoing global financial crisis—The financial markets, both globally and in Ukraine, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

While due to the nature of the Group’s business the Group’s revenues and margins were not affected by these factors, the Group’s financial results were impacted by the significant depreciation of Ukrainian currency during the year ended 31 December 2008. The Ukrainian currency remained relatively stable in 2009; however, any further weakening of the exchange rate may adversely impact the Group’s financial results in future periods.

Operating environment—The principal business activities of the Group are within Ukraine. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes and the Group’s assets and operations could be at risk if there are any adverse changes in the political and business environment.

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

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

Contractual commitments on purchase of property, plant and equipment—During the years ended 31 December 2009, 2008 and 2007, 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 2009, purchase commitments on such contracts amounted to USD 2,307 thousand (2008: USD 20,927 thousand; 2007: USD 3,851 thousand).

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

27. CONTINGENCIES AND CONTRACTUAL COMMITMENTS (Continued)

Commitments on operating lease of land—The Group has the following non-cancelable contractual obligations as to the operating lease of land as of 31 December 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Within one year	6,886	5,264	5,868
In the second to the fifth year inclusive	23,868	19,218	21,749
Thereafter	38,256	38,193	46,359
Total	<u>69,010</u>	<u>62,675</u>	<u>73,976</u>

28. RISK MANAGEMENT POLICIES

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

The Group's target was to achieve the leverage ratio of not higher than 3.25 up to 31 December 2007, 3.0 up to 31 December 2008, and 2.5 thereafter. The Group determines its leverage ratio as the proportion of debt to adjusted operating profit. As of 31 December 2009, 2008 and 2007 the leverage ratio was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Bank borrowings (Note 21)	195,833	187,697	139,733
Bonds issued (Note 22)	248,046	246,903	283,208
Finance lease and vendor financing obligations (Note 23)	69,004	69,597	44,441
Payables on other financing arrangements (Note 25)	6,370	12,484	—
	<u>519,253</u>	<u>516,681</u>	<u>467,382</u>
Operating profit	217,980	243,506	112,143
<i>Adjustments for:</i>			
Depreciation expense (Note 30, 31)	51,677	56,938	44,207
Loss on impairment of property, plant and equipment (Note 8)	1,304	11,767	10,238
Gain from change in accounting estimates in respect of valuation of biological assets	—	—	(150)
Adjusted operating profit	<u>270,961</u>	<u>312,211</u>	<u>166,438</u>
Debt to adjusted operating profit	1.92	1.65	2.81

Debt is defined as bank borrowings, bonds issued, finance lease obligations, and payables on other financing arrangements. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 24). Adjusted operating profit is defined as operating profit adjusted for the depreciation expense and losses and gains believed by the management to be non-recurring in nature, as this measure produces results substantially comparable to those reviewed for the purposes of financial covenants under the Group's borrowings.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

28. RISK MANAGEMENT POLICIES (Continued)

Major categories of financial instruments

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Financial assets:			
Cash and cash equivalents	22,248	54,072	10,088
Trade accounts receivable, net	43,377	31,531	20,363
Government grants receivable (Note 15)	29	3,397	4,192
Short-term bank deposits	7,632	25,342	10,055
Loans to employees and related parties (Notes 12 and 15) . .	1,649	1,486	1,732
Other receivables (Note 15)	3,418	2,346	2,235
Total financial assets	<u>78,353</u>	<u>118,174</u>	<u>48,665</u>
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Financial liabilities:			
Bank borrowings (Note 21)	195,833	187,697	139,733
Bonds issued	248,046	246,903	283,208
Finance lease and vendor financing obligations	69,004	69,597	44,441
Accounts payable for property, plant and equipment	6,340	8,116	9,626
Interest accrued	3,526	3,520	4,102
Trade accounts payable	72,380	22,170	25,116
Other long-term payables	310	400	2,004
Other current liabilities (Note 25)	9,991	15,033	1,454
Total financial liabilities	<u>605,430</u>	<u>553,436</u>	<u>509,684</u>

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

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

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

Limits on the level of credit risk by customer are approved and monitored on a regular basis by the management of the Group. The Group's management assesses amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. No assessment is performed immediately from the date credit period is expired. About 50% of trade receivables comprise amounts due from large supermarkets, which have the longest contractual receivable settlement period among customers.

Of the trade accounts receivable balance as of 31 December 2009, the Group's five largest customers represent 34% of the outstanding balance.

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.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

28. RISK MANAGEMENT POLICIES (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 based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2009. The amounts in the table may not be equal to the balance sheet carrying amounts since the table includes all cash outflows on an undiscounted basis.

2009	Carrying amount	Contractual amounts	Less than 1 year	From 2nd to 5th year	After 5th year
Borrowings	195,833	204,711	146,133	51,210	7,368
Bonds issued	248,046	299,115	25,625	273,490	—
Finance lease obligations	69,004	82,816	31,094	51,722	—
Total	512,883	586,642	202,852	376,422	7,368

The Group's target is to maintain its current ratio, defined as a proportion of current assets to current liabilities, at the level of 1.1–1.2. As of 31 December 2009, 2008 and 2007, the current ratio was as follows:

	2009	2008	2007
Current assets	426,977	337,631	267,337
Current liabilities	285,582	219,453	184,595
Current ratio	1.5	1.5	1.4

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

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2009 were as follows:

	USD denominated	EUR denominated
Assets		
Trade accounts receivable	3,910	—
Cash and cash equivalents	17,088	37
Total assets	20,998	37
Liabilities		
Trade accounts payable	54,482	4,127
Payables on other financing arrangements	6,370	—
Accounts payable for property, plant and equipment	15	4,232
Interest accrued	2,686	591
Long-term bank borrowings	—	56,043
Short-term bank borrowings	94,000	25,830
Bonds issued	250,000	—
Long-term finance lease and vendor financing obligations	15,797	28,750
Short-term finance lease and vendor financing obligations	5,447	19,010
Total liabilities	428,797	138,583

The below details the Group's sensitivity to strengthening of the Ukrainian Hryvnia against US Dollar and EUR by 5% and weakening of the Ukrainian Hryvnia against US Dollar and EUR by 15%. This sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

28. RISK MANAGEMENT POLICIES (Continued)

rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% and 15% change in foreign currency rates.

	USD-denominated		
	2009	2008	2007
Profit/(loss)	20,390/(61,170)	15,040/(45,120)	12,756/(38,268)

	EUR-denominated		
	2009	2008	2007
Profit/(loss)	6,927/(20,781)	7,506/(22,519)	5,860/(17,580)

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

During the year ended 31 December 2009, the Ukrainian Hryvnia depreciated against EUR by 5.5%, against US Dollar by 3.7% (2008: against EUR by 46.3%, against US Dollar by 52.5%). As a result, the Group recognized foreign exchange losses in the amount of USD 23,580 thousand (2008: USD 187,127 thousand) in the consolidated statement of comprehensive income.

The Group's management believes that the currency risk is mitigated by existence of USD-denominated proceeds from sunflower oil sales, which are substantially sufficient for servicing the Group's USD- denominated liabilities.

Interest rate risk—Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group borrows on both a fixed and variable rate basis. The primary sources of the Group's funds are loans tied to LIBOR and EURIBOR.

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

	2009		2008		2007		
	LIBOR	EURIBOR	LIBOR	EURIBOR	LIBOR	EURIBOR	NBU discount rate
Profit/(loss) . . .	9,741/(9,741)	6,490/(6,490)	12,209/(12,209)	6,496/(6,496)	1080/(1080)	959/(959)	500/(500)

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

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

Commodity price and procurement risk—Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To mitigate this risk the Group accumulates sufficient commodity stock at each balance sheet date to support at least one quarter of operations, and uses commodity forward purchase contracts.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

29. REVENUE

Revenue for the years ended 31 December 2009, 2008 and 2007 was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Poultry and related operations segment			
Revenue from sales of chicken meat	443,654	501,013	283,835
Revenue from sunflower oil sales	101,274	109,974	67,028
Revenue from other poultry related sales	32,215	49,044	34,002
	<u>577,143</u>	<u>660,031</u>	<u>384,865</u>
Other agricultural operations segment			
Revenue from sales of other meat	60,116	66,122	34,523
Other agricultural sales	27,993	26,980	16,559
	<u>88,109</u>	<u>93,102</u>	<u>51,082</u>
Grain growing segment			
Revenue from sales of grains	45,752	49,777	38,490
Total revenue from continuing operations	<u>711,004</u>	<u>802,910</u>	<u>474,437</u>

30. COST OF SALES

Cost of sales for the years ended 31 December 2009, 2008 and 2007 was as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Poultry and related operations	375,525	437,865	285,008
Other agricultural operations	85,352	91,492	55,665
Grain growing operations	38,286	42,353	24,345
Total	<u>499,163</u>	<u>571,710</u>	<u>365,018</u>

For the years ended 31 December 2009, 2008 and 2007, cost of sales comprised the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Costs of raw materials and other inventory used	338,114	390,421	239,004
Payroll and related expenses	79,746	86,440	58,310
Depreciation expense	43,479	51,541	40,397
Other costs	37,824	43,308	27,307
Total	<u>499,163</u>	<u>571,710</u>	<u>365,018</u>

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

31. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Payroll and related expenses	30,062	37,820	16,306
Services	13,992	11,069	6,905
Advertising expenses	10,562	8,361	9,626
Representative costs and business trips	8,807	8,319	7,912
Depreciation expense	8,198	5,397	3,810
Fuel and other materials used	6,454	8,045	4,470
Insurance expenses	1,349	580	1,130
Bank services and conversion fees	476	477	824
Other	1,072	427	616
Total	<u>80,972</u>	<u>80,495</u>	<u>51,599</u>

32. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Change in allowance for irrecoverable VAT and direct write-offs	7,803	4,821	2,438
Change in allowance for irrecoverable amounts and direct write-offs	1,791	1,052	2,777
Non-production materials write-off	160	995	817
(Gain)/loss on disposal of property, plant and equipment	(8)	1,145	(660)
Other	5,463	2,009	1,903
Total	<u>15,209</u>	<u>10,022</u>	<u>7,275</u>

33. FINANCE COSTS, NET

Finance costs for the years ended 31 December 2009, 2008 and 2007 were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest on corporate bonds	26,822	31,300	32,781
Interest on bank borrowings	12,996	11,332	10,405
Interest on obligations under finance leases	7,279	5,584	4,256
Interest on grain purchases financing arrangements	3,463	3,456	2,533
Bank commissions and other charges	1,301	2,397	1,648
Government grants as compensation of the finance costs for agricultural producers (Note 26)	(900)	(2,406)	(2,141)
Total finance costs	50,961	51,663	49,482
Less:			
Finance costs included in cost of qualifying assets	(144)	—	—
Total	<u>50,817</u>	<u>51,663</u>	<u>49,482</u>

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

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

33. FINANCE COSTS, NET (Continued)

Interest on corporate bonds for the years ended 31 December 2009, 2008 and 2007 includes amortization of premium and debt issue costs on bonds issued in the amounts of USD 1,197 thousand, USD 1,611 thousand and USD 1,705 thousand, respectively.

34. PENSIONS AND RETIREMENT PLANS

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund are recorded in the statement of comprehensive income on the accrual basis. The Group companies are not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses. During the years ended 31 December 2009, 2008 and 2007 the Group companies remitted 33.2% and 26.56% for CIT and FAT payers, respectively, of the aggregate employees' salaries to the State Pension Fund subject to the following limits:

<u>Period</u>	<u>Limit per employee per month, USD</u>
1 January 2007–31 March 2007	518
1 April 2007–30 September 2007	553
1 October 2007–31 December 2007	560
1 January 2008–31 March 2008	624
1 April 2008–30 June 2008	649
1 July 2008–30 September 2008	667
1 October 2008–31 December 2008	536
1 January 2009–31 October 2009	430
1 November 2009–31 December 2009	464

The Group's contributions to the State Pension Fund during the year ended 31 December 2009 amounted to USD 23,840 thousand (2008: USD 22,820 thousand; 2007: USD 10,152 thousand).

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair value of bank borrowings as of 31 December 2009 is estimated at USD 180,765 thousand compared to carrying amount of USD 195,833 thousand. The fair value of finance lease obligations as of 31 December 2009 is estimated at USD 63,407 thousand compared to carrying amount of USD 69,004 thousand. Fair value of these liabilities was estimated by discounting the expected future cash outflows by a market rate of interest.

The fair value of bonds is estimated at USD 228,875 thousand compared to the carrying value of USD 248,046 thousand. The fair value was estimated based on market quotations.

MHP S.A. AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007
(in US Dollars and in thousands)

36. EARNINGS PER SHARE

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

	2009	2008	2007
Profit for the year attributable to equity holders of the Parent	148,564	1,518	40,870
Loss/(profit) for the year from discontinued operations used in calculation of earnings per share from discontinued operations	—	9,722	3,601
Earnings used in calculation of earnings per share from continuing operations	148,564	11,240	44,471
 Weighted average number of shares outstanding	 110,770,000	 106,738,750	 100,020,000

During the years ended 31 December 2008 and 2007 the results from discontinued operations were attributable to equity holders of the Parent. The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

37. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2009	2008	2007
Additions of property, plant and equipment under finance leases and vendor financing arrangements	22,118	47,616	28,417
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor	4,489	16,313	27,849
Property, plant and equipment purchased for credit	6,340	8,116	9,626

38. AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Directors of MHP S.A. on 30 March 2010.

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