

**PRESS RELEASE**

28 August 2015, Kyiv, Ukraine

**MHP S.A.**

**Unaudited Financial Results for the Second Quarter and**

**Six Months Ended 30 June 2015**

MHP S.A. (LSE:MHPC), one of the leading agro-industrial companies in Ukraine, focusing on the production of poultry and cultivation of grain, today announces its unaudited results for the second quarter and six months ended 30 June 2015.

**OPERATIONAL HIGHLIGHTS**

***Q2 2015 highlights***

* Production volumes reached 138,050 tonnes, up by 4% year-on-year (Q2 2014: 132,350 tonnes), owing to the increasing production volumes at the Vinnytsia poultry farm
* The average chicken price increased by 55% year-on-year to UAH 27.73 per kg (excluding VAT) predominantly due to the Ukrainian Hryvnia depreciation
* Chicken meat export higher by 47% reaching 39,960 tonnes (Q2 2014: 27,190 tonnes)
* Reconstruction of Peremoga Nova breeding farm is complete, with first hatchery eggs produced in June 2015

***H1 2015 highlights***

* Production volumes increased by 4% to 278,430 tonnes (H1 2014: 268,880 tonnes)
* The average chicken price increased by 58% to UAH 26.65 per kg (excluding VAT) compared to UAH 16.86 in H1 2014 predominantly due to the Ukrainian Hryvnia depreciation
* Chicken meat export increased by 15% and reached 66,020 tonnes (H1 2014: 57,560 tonnes)

**FINANCIAL HIGHLIGHTS**

***Q2 2015 highlights***

* Revenue of US$ 309 million, lower by 6% year-on-year
* Export revenue amounted to US$ 139 million, 45% of total revenue (Q2 2014: US$ 114 million, 35% of total revenue)
* Operating profit of US$ 127 million decreased by 14%; overall operating margin was 41%
* EBITDA margin lowered to 48% from 50%; EBITDA decreased to US$ 147 million from
US$ 166 million
* Net profit for the period is US$ 231 million, compared to US$ 46 million for the Q2 2014.

***H1 2015 highlights***

* Revenue of US$ 551 million, decrease of 14% year-on-year
* Export revenue amounted to US$ 241 million, 44% of total revenue (H1 2014: US$ 233 million, 37% of total revenue)
* Operating profit of US$ 235 million, up by 4% year-on-year
* EBITDA remained flat: US$ 270 million; EBITDA margin is 49%, up from 43% last year
* Net loss of US$ 61 million, including US$ 254 million related to non-cash foreign exchange translation losses

**FINANCIAL OVERVIEW**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$, unless indicated otherwise)* |  | **Q2 2015** |  | **Q2 2014** | *% change\** |  | **H1 2015** |  | **H1 2014** | *% change\** |
|  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Revenue** |  |  **309** |  |  **329** | **-6%** |  |  **551** |  |  **637** | **-14%** |
| IAS 41 standard gains |  |  33 |  |  64 | -48% |  |  50 |  | 80 | -38% |
|  |  |  |  |  |  |  |  |  |  |  |
| **Gross profit** |  |  **137** |  |  **160** | **-14%** |  |  **245** |  |  **264** | **-7%** |
| *Gross profit margin* |  | *44%* |  | *49%* | *-5 pps* |  | *44%* |  | *41%* | *3 pps* |
|  |  |  |  |  |  |  |  |  |  |  |
| **Operating profit** |  |  **127** |  |  **147** | **-14%** |  |  **235** |  |  **227** | **4%** |
| *Operating profit margin* |  | *41%* |  | *45%* | *-4 pps* |  | *43%* |  | *36%* | *7 pps* |
|  |  |  |  |  |  |  |  |  |  |  |
| **EBITDA** |  |  **147** |  |  **166** | **-11%** |  |  **270** |  |  **272** | **-1%** |
| *EBITDA margin* |  | *48%* |  | *50%* | *-2 pps* |  | *49%* |  | *43%* | *6 pps* |
|  |  |  |  |  |  |  |  |  |  |  |
| **Net profit before foreign exchange differences** |  |  **91** |  |  **134** | **-32%** |  |  **193** |  |  **184** | **5%** |
| *Net profit margin before forex gain/(loss)*  |  | *29%* |  | *41%* | *-12 pps* |  | *35%* |  | *29%* | *6 pps* |
| Foreign exchange gain/(loss) |  |  140 |  | (88) | n/a |  | (254) |  | (454) | n/a |
|  |  |  |  |  |  |  |  |  |  |  |
| **Net profit** |  |  **231** |  |  **46** | **402%** |  | **(61)** |  | **(270)** | **-77%** |
| *Net profit margin* |  | *75%* |  | *14%* | *61 pps* |  | *-11%* |  | *-42%* | *31 pps* |

*\* pps – percentage points*

*Average official FX rate for Q2: UAH/US$ 21.6115 in 2015 and UAH/US$ 11.6962 in 2014*

*Average official FX rate for H1: UAH/US$ 21.3649 in 2015 and UAH/US$ 10.2873 in 2014*

**Chief Executive Officer, Yuriy Kosyuk, commented:**

“Despite challenging situation in Ukraine, the Company step by step continues to develop. Notwithstanding significant Hryvnia depreciation since the beginning of 2015 (from 15.77 to 21.61 UAH per USD), our Company managed to deliver stable financial results with EBITDA of 49% in H1 2015. Production of poultry meat grows in line with our plans. We expect good harvest of crops.

In order to further control our costs, we are now creating new breeding facilities and gradually replacing imports.

In line with our plans we are building new poultry capacities and expand our land bank.

I believe the delivery of these results in such difficult conditions provide further validation of MHP’s unique vertically integrated business model. These will continue to be strong drivers for the Company’s continuing growth and development both in poultry and grain and we are confident that we will continue to deliver strong operational and financial performance in 2015 and beyond.”

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

The dial-in details are:

Date: Friday, 28 August 2015

Time: 09.00 New York / 14.00 London / 16.00 Kyiv / 16.00 Moscow

Title: Financial Results for Q2 and H1 2015

International/UK Dial in: +44 (0) 1452 555566

USA free call: 1866 9669439

Russia free call 8108 002 097 2044

Conference ID 3560144

In order to follow the presentation together with the management, please register using the following link:

<http://engage.vevent.com/rt/mhp/index.jsp?seid=24>

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**Segment Performance**

**Poultry and related operations**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Q2 2015** | **Q2 2014** | % change |  | **H1 2015** | **H1 2014** | % change |
|  |  |
|  |  |  |  |  |  |  |  |  |
| **Poultry** |  |  |  |  |  |  |  |  |
| Sales volume, third parties tonnes |  | 143,780 | 139,720  | 3% |  | 257,420 | 251,990 | 2% |
| Price per 1 kg net of VAT, UAH |  | 27.73 | 17.85 | 55% |  | 26.65 | 16.86 | 58% |
|  |  |  |  |  |  |  |  |  |
| **Sunflower oil** |  |   |   |   |  |   |   |   |
| Sales volume, third parties tonnes |  |  79,030 | 69,641 | 13% |  | 145,800 | 137,163 | 6% |
| Price per 1 tonne net of VAT, US$ |  |  766  |  861  | -11% |  | 779 |  857  | -9% |

Aggregate volume of chicken meat sold to third parties in H1 2015 and Q2 2015 remained relatively flat year-on-year. Sales on domestic market, however, decreased by 2% and 8% year-on-year and constituted 191,400 tonnes and 103,820 tonnes respectively as a result of decreased sales in Donetsk and Luhansk regions of Ukraine.

At the same time, export sales of H1 2015 and Q2 2015 increased by 15% and 47% to 66,020 tonnes and 39,960 tonnes compared with respective corresponding periods from a year earlier. This substantial growth is attributable to the development of new markets in the countries of Asia, Middle East and Africa, in addition to the significant increase in volume of chicken meat exported to the EU. MHP’s sales to the EU countries reached 11,690 tonnes in H1 2015, up by 230% compared with H1 2014. Current share of MHP’s foreign sales attributable to the EU markets expanded to 18% from around 6% in H1 2014.

Through the Q2 2015 the aggregate average chicken meat price was UAH 27.73, 55% higher than the corresponding price year-on-year. The average H1 2015 price increased accordingly by 58% and reached UAH 26.65 per 1 kg of adjusted weight (excluding VAT). Change is mostly attributable to the domestic price inflation by around 40% year-on-year compared with Q2 2014, mostly due to Ukrainian Hryvnia devaluation, supported, in addition, by the increased share of our export sales denominated in US dollars.

Due to the increase of fodder meal production at the Vinnytsia complex in Q2 2015, MHP has sold 13% more crude sunflower oil than 69,641 tonnes exported during Q2 2014; and 6% more than 137,163 tonnes sold during H1 2014. The average sunflower oil sales price decreased by 11% to US$ 766 per tonne, in line with world market trends compared with the average sales price of US$ 861 per tonne in Q2 2014.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$, unless indicated otherwise)* |  | **Q2 2015** |  |  **Q2 2014** |  | *% change\** |  | **H1 2015** |  | **H1 2014** |  | *% change\** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Revenue** |  |  **257** |  |  **291** |  | **-12%** |  |  **452** |  |  **554** |  | **-18%** |
| *- Poultry and other* |  |  196 |  |  231 |  | -15% |  |  338 |  |  437 |  | -23% |
| *- Sunflower oil* |  |  61 |  |  60 |  | 2% |  |  114  |  |  117 |  | -3% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **IAS 41 standard gains** |  | **(1)** |  |  **20** |  | **n/a** |  |  **20** |  |  **37** |  | **-46%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Gross profit** |  |  **79** |  |  **113** |  | **-30%** |  |  **175**  |  |  **211** |  | **-17%** |
| *Gross margin* |  | 31% |  | 39% |  | -8 pps |  | 39% |  | 38% |  | 1 pps |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **EBITDA** |  |  **93** |  | **123** |  | **-24%** |  |  **206** |  |  **238** |  | **-13%** |
| *EBITDA margin* |  | 36% |  | 42% |  | -6 pps |  | 46% |  | 43% |  | 3 pps |
| *EBITDA per 1 kg (net of IAS 41)* |  | 0.65 |  | 0.74 |  | -12% |  | 0.72 |  | 0.80 |  | -10% |

*\* pps – percentage points*

Revenue of Poultry and related operations segment of Q2 2015 and H1 2015 has decreased by 12% and 18% year-on-year respectively. Decrease in revenue is mainly attributable to the depreciation of UAH against USD which affected USD equivalent of domestic revenues to the higher extent than the inflation of chicken meat price in Ukraine.

Gross profit of the poultry and related operations segment for the H1 2015 decreased by US$ 36 million and amounted to US$ 175 million, mainly as a result of decrease in revenue as well as lower IAS 41 standard gains.

Slightly lower decrease year-on-year in EBITDA for H1 2015 compared to decrease in Gross profit is mainly attributable to reduced USD equivalent of operating costs, which remained relatively fixed in UAH.

**Grain growing operations**

In 2015 in grain growing operations MHP is to harvest around 340,000 hectares of land in Ukraine, of which 50,000 ha are newly acquired assets as a result of swap agreement with Agrokultura AB, whereby the Group has agreed to swap group of companies Voronezh Agroholding with the group of companies Agrokultura Ukraine.

Due to the favorable weather conditions in Ukraine, operational efficiency and employment of best practice, our yields of early crops are high with wheat 6.1 t/ha and rapeseeds 3.5 t/ha in bunker weight and significantly higher than Ukraine’s average (wheat – 3.8 t/ha, rapeseeds – 1.7 t/ha. Source: APK-Inform).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$, unless indicated otherwise)* |  | **H1 2015** |  | **H1 2014** |  | *% change\** |
|  |  |  |
|  |  |  |  |  |  |  |
| **Revenue** |  |  **52**  |  |  **19**  |  | **174%** |
|  |  |  |  |  |  |  |
| IAS 41 standard gains |  |  31  |  |  43  |  | -28% |
|  |  |  |  |  |  |  |
| **Gross profit** |  |  **63**  |  |  **43**  |  | **47%** |
|  |  |  |  |  |  |  |
| **EBITDA** |  |  **62**  |  |  **43**  |  | **44%** |

Grain growing segment’s revenue of H1 2015 raised by 174% year-on-year and amounted to
US$ 52 million, a US$ 33 million increase year-on-year mainly related to higher stock of corn and wheat harvested in 2014 remained in stock as of 31 December 2014 compared to 31 December 2013 that was sold during H1 2015 and H1 2014 respectively.

Grain growing segment EBITDA of H1 2015 amounted to US$ 62 million, generated sales of grain harvested in 2014 as well as the effect of IAS 41 related to crops in fields as of 30 June 2015.

**Other agricultural operations**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Meat processing products** |  | **Q2 2015** | **Q2 2014** | % change |  | **H1 2015** | **H1 2014** | % change |
|  |  |
|  |  |  |  |  |  |  |  |  |
| Sales volume, third parties tonnes |  |  6,714 | 8,316 | -19% |  | 11,990 | 15,172 | -21% |
| Price per 1 kg net VAT, UAH |  | 44.44 | 26.50 | 68% |  | 42.33 | 25.40 | 67% |

Sales volume of meat processing products decreased by 21% year-on-year and amounted to
11,990 tonnes in H1 2015 mainly as a result of lower consumption of value-added meat processing products due to overall economic recession in Ukraine and decreased sales in Donetsk and Luhansk regions of Ukraine.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$, except margin data)*   |  | **Q2 2015** |  | **Q2 2014** |  | *% change\** |  | **H1 2015** |  | **H1 2014** |  | *% change\** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Revenue**  |  | **28** |  | **30** |  | ***-7%*** |  |  **47**  |  | **64** |  | **-27%** |
| *- Meat processing* |  | 15 |  | 20 |  | *-25%* |  |  26  |  | 39 |  | -33% |
| *- Other* |  | 13 |  | 10 |  | *30%* |  |  21  |  | 25 |  | -16% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **IAS 41 standard gains** |  |  **-**  |  |  **- -**  |  | ***N/A*** |  |  **(1)** |  |  **(1)** |  | **0%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Gross profit** |  | **4** |  | **5** |  | ***-20%*** |  |  **7**  |  | **10** |  | **-30%** |
| *Gross margin* |  | *14%* |  | *17%* |  | *-3 pps* |  | *15%* |  | *16%* |  | *-1 pps* |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **EBITDA** |  | **5** |  | **4** |  | ***25%*** |  | **7** |  | **10** |  | **-30%** |
| *EBITDA margin* |  | *18%* |  | *13%* |  | *5 pps* |  | 15% |  | 16% |  | -1 pps |

*\* pps – percentage points*

Segment revenue decreased by 27% year-on year and amounted to US$ 47 million due to both: decrease in sales volumes and UAH depreciation against USD resulting in lower USD equivalent compared to
H1 2014. Contribution to total EBITDA during last 5 years was 2-8%; H1 2015 – 3%.

**Current Group financial position and cash flow**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$)* |  | **Q2 2015** |  | **Q2 2014** |  | **H1 2015** |  | **H1 2014** |
|  |  |  |  |  |  |  |  |  |
| **Cash from operations** |  |  **67** |  |  **49** |  |  **167** |  |  **145** |
| Change in working capital |  | (60) |  | (2) |  | (103) |  | (9) |
| **Net Cash from operating activities** |  |  **7** |  |  **47** |  |  **64** |  |  **136** |
|  |  |  |  |  |  |  |  |  |
| Cash from investing activities |  | (20) |  | (37) |  | (66) |  | (64) |
| Non-cash financing |  |  1  |  |  - |  | **(1)** |  |  - |
| **CAPEX** |  | **(19)** |  | **(36)** |  | **(67)** |  | **(65)** |
|  |  |  |  |  |  |  |  |  |
| *Cash from financing activities* |  | *(115*) |  | *(45)* |  | *(4*) |  | *(102)* |
| *incl. Dividends*  |  | *(50)* |  | *(54)* |  | *(50*) |  | *(74)* |
| Non-cash financing |  | *(1)* |  |  *-* |  |  *1* |  |  *-* |
| Deposits |  |  - |  |  - |  |  - |  |  - |
| **Total financial activities** |  | **(116)** |  | **(46)** |  | **(3**) |  | **(101)** |
|  |  |  |  |  |  |  |  |  |
| **Total change in cash** |  | **(128)** |  | **(35**) |  | **(6**) |  | **(30**) |

Cash flow from operations before changes in working capital has increased and amounted to
US$ 167 million in H1 2015 (H1 2014: US$ 145 million).

Use of funds in working capital during H1 2015 is mainly related to investment in crops in fields to be harvested in 2015.

In H1 2015 total CAPEX amounted to US$ 67 million related to new agro machinery equipment purchases, construction of Peremoga breeder farm, Myronivka and Oril Leader farms expansion of rearing sites and soy oil extraction plant. Myronivka and Oril Leader farms are being expanded during 2015 at rearing sites so that first poultry volumes are expected in 2016.

**Debt Structure and Liquidity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$)* |  | **30 June 2015** |  | **31 March 2015** |  | **31 December 2014** |
|  |  |  |  |  |  |  |
| **Total Debt** |  |  **1,243** |  |  **1,314**  |  |  **1,215** |
| LT Debt |  |  1,053 |  |  953  |  |  899 |
| ST Debt  |  |  190 |  |  361  |  |  316 |
| Cash  and bank deposits |  | (80) |  |  (214) |  | (100) |
| **Net Debt** |  |  **1,163** |  |  **1,100** |  |  **1,115** |
|  |  |  |  |  |  |  |
| LTM EBITDA |  |  553 |  |  572 |  |  555 |
| *Net Debt / LTM EBITDA* |  |  *2.10* |  |  *1.92* |  |  *2.01* |

As of June 30, 2015, the Company’s short-term debt decreased by 47% compared to 31 March 2015 mainly as a result of repayment of 10.25% Senior Notes due 29 April 2015 in amount of US$220 million using syndicated loan facility of IFC (International Financial Corporation), a member of World Bank Group, which provided MHP with US$200 million (US$175 million from IFC and US$25 million from ING), and the MHP’s cash from operations.

The share of long-term debt in the total outstanding debt is about 85%. The weighted average cost of debt is around 8.5%.

At the end of H1 2015, MHP’s cash and cash equivalents amounted to US$ 80 million. Net debt remained relatively stable at US$ 1,163 million.

The Net Debt / LTM EBITDA ratio was 2.10 as of 30 June 2015, well within the Eurobond covenant limit of 3.0.

As a hedge for currency risks, revenue from the export of grain, sunflower and soybean oil, sunflower husks, and chicken meat are denominated in US Dollars, fully covering debt service expenses. Export revenue for the six months period ended 30 June 2015 amounted to US$ 241 million or 44% of total revenue (US$ 233 million or 37% of total sales in H1 2014).

**Dividends**

On 28 April 2015, the Board of Directors of MHP S.A. approved payment of the interim dividend of
USD 0.47429 per share, equivalent to approximately USD 50 million. The Board of Directors approved a payment date of dividends on 14 May 2015 to shareholders of a record on 8 May 2015. The Board of Directors approved that no dividend will be paid on the Company’s shares held in treasury.

**Change in the group structure**

In May 2015 MHP has signed an asset swap agreement with Agrokultura AB, whereby assets of Voronezh Agro Holding where swapped with assets of group of companies Agrokultura Ukraine. The transaction has been completed with effective transfer of control in June 2015. Group of companies Agrokultura Ukraine, entering MHP group, is a grain growing business cultivating a land bank of about 60,000 hectares in Lviv, Ternopil and Ivano-Frankivsk regions of Ukraine, with approximately 90,000 tonnes of grain storage capacities.

**Outlook**

MHP continues to develop and grow both in poultry and grain growing segments of the business.

The company is gradually growing in poultry segment by building new site at Myronivka and Oril-Leader, which are going to be operational since January 2016. At the same time Phase 2 of the Vinnytsia Project is on track with all project papers ready and pre-construction activities done.

As forecasted at the beginning of the year, our breeding facilities are being gradually expanded, so that in 2016 MHP will become once again self-sufficient in hatching eggs.

In line with our strategy we grow our land bank organically.

Even in this challenging time for Ukraine, we are confident that due to our vertically integrated business model, we will deliver good financial results, supported by significant share of hard currency revenues from our chicken, oil and grain export sales.

**Notes to Editors:**

**About MHP**

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

MHP also has a leading grain cultivation business growing corn to support the vertical integration of its chicken production and increasingly other grains, such as wheat and rape, for sale to third parties. MHP leases agricultural land located primarily in the highly fertile black soil regions of Ukraine.

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

**Forward-Looking Statements**

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

 MHP S.A. AND ITS SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

 *As of and for the six-month period ended 30 June 2015*

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**MANAGEMENT STATEMENT**

To the best of our knowledge, the unaudited interim condensed consolidated financial statements of
MHP S.A. (the “Company”) and its subsidiaries (collectively the “Group”) as of and for the six month period ended 30 June 2015 prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” give a true and fair view of the assets, liabilities, financial position and financial performance of the Company and the undertakings included in the consolidation taken as a whole, and the management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

27 August 2015

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

**MANAGEMENT REPORT**

***Key financial highlights***

During the six-month period ended 30 June 2015 consolidated revenue decreased by 14% and amounted to USD 550,995 thousand, compared to USD 637,267 thousand for the six-month period ended
30 June 2014. Export sales for the six-month period ended 30 June 2015 constituted 44% of total revenue and amounted to USD 241,129 thousand, compared to USD 233,495 thousand or 37% of total revenue for the six-month period ended 30 June 2014. Overall decrease in revenue is mainly attributable to the UAH depreciation against USD.

Gross profit has decreased by 7% and amounted to USD 245,006 thousand for the six-month period ended 30 June 2015 compared to USD 263,751 thousand for the six-month period ended 30 June 2014. Decrease in gross profit is mostly related to domestic market as a result of UAH depreciation against USD.

Despite decrease in gross profit, operating profit remained relatively flat. A moderate increase of 3% to USD 234,521 thousand for the six-month period ended 30 June 2015 compared to USD 227,457 thousand for the six-month period ended 30 June 2014 is mainly related to decrease in USD equivalent of operating expenses that are fixed in UAH as a result of UAH depreciation against USD.

Net loss from operations for the six-month period ended 30 June 2015 amounted to USD 61,196 thousand including foreign exchange loss of USD 254,489 thousand compared to net loss of USD 269,641 thousand for the six-month period ended 30 June 2014. Unrealized foreign exchange loss is mainly related to bank borrowings and bonds issued in foreign currency as result of UAH depreciation against USD and EUR during the six-month period ended 30 June 2015.

***Dividends***

On 28 April 2015, the Board of Directors of MHP S.A. approved a payment of the interim dividend. On 14 May 2015 MHP S.A. paid dividend to shareholders in amount of USD 0.47429 per share, equivalent to approximately USD 50,000 thousand.

***Bonds settlement***

On 29 April 2015, the Group has repaid it’s 10.25% Senior Notes due 29 April 2015 in amount of
USD 220,000 thousand using syndicated loan facility of International Finance Corporation (“IFC”), a member of World Bank Group, which provided the Company with USD 200,000 thousand (USD 175,000 thousand from IFC and USD 25,000 thousand from ING Bank), and the Company’s cash from operations.

***Change in group structure***

On 8 June 2015, the Group finalized an agreement to swap its grain growing assets of Voronezh Agro Holding (40,000 ha of land; 150,000 tonnes of grain storage capacities) in the Voronezh region of
the Russian Federation, with assets of group of companies Agrokultura Ukraine (60,000 ha of land;
90,000 tonnes of grain storage capacities) in Lviv, Ternopil and Ivano-Frankivsk regions of Ukraine.

Transaction is in the line with MHP business strategy, the Company will continue gradually expanding its land bank in Ukraine up to 500,000 ha in the nearest future.

***Internal control and risk management***

During the six-month period ended 30 June 2015 there were no changes to objectives, policies and processes for risks inherent to the Group. The summary of key risks and their mitigation plans that Group faces are disclosed in the Director’s report for the period ended 31 December 2014.

27 August 2015

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOMEfor the six-month period ended 30 June 2015

*(in thousands of US dollars, unless otherwise indicated)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | *Notes* | *Six-month period ended 30 June 2015* |  | *Six-month period ended 30 June 2014* |
|  |  |  |  |  |
| Revenue | *4* |  550,995 |  | 637,267 |
| Net change in fair value of biological assets and agricultural produce | *4, 5* |  50,025 |  | 79,740 |
| Cost of sales |  | (356,014) |  | (453,256) |
| **Gross profit** |  |  245,006 |  | 263,751 |
|  |  |  |  |  |
| Selling, general and administrative expenses |  | (36,691) |  | (57,004) |
| VAT refunds and other government grants income |  |  23,695 |  | 35,062 |
| Other operating income/(expenses) |  |  2,511 |  | (14,352) |
| **Operating profit** |  |  234,521 |  | 227,457 |
|  |  |  |  |  |
| Finance income |  |  656 |  | 2,324 |
| Finance costs |  | (55,161) |  | (55,194) |
| Loss on disposal of subsidiaries | *3* | (4,725) |  | - |
| Foreign exchange loss, net | *15* | (254,489) |  | (454,355) |
| Other expenses, net |  | (1,396) |  | (3,467) |
| **Other expenses, net** |  | (315,115) |  | (510,692) |
|  |  |  |  |  |
| **Loss before tax** |  | (80,594) |  | (283,235) |
|  |  |  |  |  |
| Income tax benefit | *6* |  19,398 |  | 13,594 |
|  |  |  |  |  |
| **Loss for the period** | *5* | (61,196) |  | (269,641) |
|  |  |  |  |  |
| **Other comprehensive (loss)/income** |  |  |  |  |
|  |  |  |  |  |
| **Items that will not be reclassified to profit or loss:** |  |  |  |  |
| Effect of revaluation of property, plant and equipment | *7* |  104,900 |  | 108,553 |
| Deferred tax on property, plant and equipment charged directly to revaluation reserve |  | (16,334) |  | (15,606) |
|  |  |  |  |  |
| **Items that may be reclassified to profit or loss:** |  |  |  |  |
| Cumulative translation difference |  | (190,086) |  | (349,468) |
| **Other comprehensive loss for the period** |  | (101,520) |  | (256,521) |
| **Total comprehensive loss for the period** |  | (162,716) |  | (526,162) |
|  |  |  |  |  |
| (Loss)/income attributable to: |  |  |  |  |
| Equity holders of the Parent |  | (65,287) |  | (271,730) |
| Non-controlling interests |  |  4,091 |  |  2,089 |
|  |  | (61,196) |  | (269,641) |
| Total comprehensive income/(loss) attributable to: |  |  |  |  |
| Equity holders of the Parent |  | (163,445) |  | (533,074) |
| Non-controlling interests |  |  729  |  |  6,912 |
|  |  | (162,716) |  | (526,162) |
|  |  |  |  |  |
| **Earnings per share** |  |  |  |  |
| Basic and diluted loss per share (USD per share) |  | (0.62) |  | (2.57) |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 10 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**as of 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | *Notes* |  *30 June 2015* |  | *31 December 2014* |
| **ASSETS** |  |  |  |  |
| **Non-current assets** |  |  |  |  |
| Property, plant and equipment | *7* |  1,262,742 |  |  1,486,681  |
| Land lease rights |  |  44,577 |  |  27,236  |
| Deferred tax assets |  |  185 |  |  247  |
| Non-current biological assets |  |  27,192 |  |  30,313  |
| Long-term bank deposits |  |  4,326 |  |  4,848  |
| Other non-current assets |  |  10,188 |  |  12,344  |
|  |  |  1,349,210 |  |  1,561,669  |
| **Current assets** |  |  |  |  |
| Inventories | *8* |  140,355 |  |  203,248  |
| Biological assets | *9* |  309,447 |  |  133,254  |
| Agricultural produce | *8* |  65,474 |  |  159,655  |
| Other current assets, net |  |  36,433 |  |  29,974  |
| Taxes recoverable and prepaid, net |  |  69,762 |  |  46,441  |
| Trade accounts receivable, net |  |  45,307 |  |  59,619  |
| Cash and cash equivalents |  |  80,489 |  |  99,628  |
|  |  |  747,267 |  |  731,819  |
| **TOTAL ASSETS** |  |  2,096,477 |  |  2,293,488  |
|  |  |  |  |  |
| **EQUITY AND LIABILITIES** |  |  |  |  |
| **Equity** |  |  |  |  |
| Share capital |  |  284,505 |  |  284,505  |
| Treasury shares |  | (67,741) |  |  (67,741)  |
| Additional paid-in capital |  |  181,982 |  |  181,982  |
| Revaluation reserve |  |  760,360 |  |  684,184  |
| Retained earnings |  |  404,310 |  |  509,859  |
| Translation reserve |  | (891,178) |  |  (710,372)  |
| **Equity attributable to equity holders of the Parent** |  |  672,238 |  |  882,417  |
| Non-controlling interests |  |  62,832 |  |  63,105  |
| **Total equity** |  |  735,070 |  |  945,522  |
|  |  |  |  |  |
| **Non-current liabilities** |  |  |  |  |
| Bank borrowings | *10* |  310,889 |  |  152,302  |
| Bonds issued | *11* |  726,480 |  |  724,522  |
| Finance lease obligations |  |  15,786 |  |  22,206  |
| Deferred tax liabilities |  |  15,888 |  |  20,671  |
|  |  |  1,069,043 |  |  919,701  |
| **Current liabilities** |  |  |  |  |
| Trade accounts payable |  |  32,540 |  |  42,821  |
| Other current liabilities |  |  47,667 |  |  47,428  |
| Bank borrowings | *10* |  175,726 |  |  81,330  |
| Bonds issued | *11* |  - |  |  218,555  |
| Accrued interest |  |  21,863 |  |  21,738  |
| Finance lease obligations |  |  14,568 |  |  16,393  |
|  |  |  292,364 |  |  428,265  |
| **TOTAL LIABILITIES** |  |  1,361,407 |  |  1,347,966  |
| **TOTAL EQUITY AND LIABILITIES** |  |  2,096,477 |  |  2,293,488  |
|  |  |  |  |  |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 10 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | *Attributable to equity holders of the Parent* |  |  |  |  |  |  |
|  | *Share* *capital* |  | *Treasury shares* |  | *Additional paid-in capital* |  | *Revaluation reserve* |  | *Retained earnings* |  | *Translation reserve* |  | *Total* |  | *Non-controlling interests* |  | *Total equity* |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of 1 January 2015** |  284,505  |  | (67,741) |  |  181,982 |  |  684,184 |  |  509,859 |  | (710,372) |  |  882,417 |  |  63,105 |  |  945,522 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (Loss)/Profit for the period |  - |  |  - |  |  - |  |  - |  | (65,287) |  |  - |  | (65,287) |  |  4,091 |  | (61,196) |
| Other comprehensive income/(loss) |  - |  |  - |  |  - |  |  85,914 |  |  - |  | (184,072) |  | (98,158) |  | (3,362) |  | (101,520) |
| Total comprehensive income/(loss) for the period |  - |  |  - |  |  - |  |  85,914 |  | (65,287) |  | (184,072) |  | (163,445) |  |  729 |  | (162,716) |
| Dividends declared by the Parent *(Note 16 )* | - |  | - |  | - |  | - |  | (50,000) |  | - |  | (50,000) |  |  - |  | (50,000) |
| Acquisition and changes in subsidiaries *(Note 3)*  | - |  | - |  | - |  |  (9,738) |  |  9,738 |  |  3,266 |  |  3,266 |  | (1,002) |  |  2,264 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of 30 June 2015** |  284,505 |  | (67,741) |  |  181,982 |  |  760,360 |  |  404,310 |  | (891,178) |  |  672,238 |  |  62,832 |  |  735,070 |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 10 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the six-month period ended 30 June 2014**

*(in thousands of US dollars, unless otherwise indicated)*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | *Attributable to equity holders of the Parent* |  |  |  |  |  |  |
|  | *Share* *capital* |  | *Treasury shares* |  | *Additional paid-in capital* |  | *Revaluation reserve* |  | *Retained earnings* |  | *Translation reserve* |  | *Total* |  | *Non-controlling interests* |  | *Total equity* |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of 1 January 2014** |  284,505 |  | (65,393) |  |  181,982 |  |  22,869 |  |  1,012,826 |  | (241,249) |  |  1,195,540 |  |  53,665 |  |  1,249,205 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (Loss)/Profit for the period |  - |  |  - |  |  - |  |  - |  | (271,730) |  |  - |  | (271,730) |  |  2,089 |  | (269,641) |
| Other comprehensive income/(loss) |  - |  |  - |  |  - |  |  90,428 |  |  - |  |  (351,772) |  | (261,344) |  |  4,823 |  | (256,521) |
| Total comprehensive income/(loss) for the period |  - |  |  - |  |  - |  |  90,428 |  | (271,730) |  | (351,772) |  | (533,074) |  |  6,912 |  | (526,162) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Dividends declared by the Parent  |  - |  |  - |  |  - |  |  - |  | (80,000) |  |  - |  | (80,000) |  |  - |  | (80,000) |
| Dividends declared by subsidiaries |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  | (77) |  | (77) |
| Non-controlling interests acquired  |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  |  148 |  |  148 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of 30 June 2014** |  284,505 |  | (65,393) |  |  181,982 |  |  113,297 |  |  661,096 |  | (593,021) |  |  582,466 |  |  60,648 |  |  643,114 |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 10 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | *Notes* | *Six-month period ended 30 June 2015* |  | *Six-month period ended 30 June 2014* |
| **Operating activities** |  |  |  |  |
|  |  |  |  |  |
| Loss before tax |  |  (80,594) |  | (283,235) |
| Non-cash adjustments to reconcile profit before tax to net cash flows |  |  |  |  |
| Depreciation and amortization expense | *4* |  35,441  |  |  44,140 |
| Net change in fair value of biological assets and agricultural produce | *4, 5* |  (50,025) |  | (79,740) |
| Change in allowance for irrecoverable amounts and direct write-offs |  |  375  |  |  14,306 |
| Gain on disposal of property, plant and equipment and other non-current assets |  |  (138) |  | (143) |
| Finance income |  |  (656) |  | (2,324) |
| Finance costs |  |  55,161  |  |  55,194 |
| Unrealised foreign exchange loss, net | *15* |  254,489  |  |  454,355 |
| Loss on disposal of subsidiaries | *3* |  4,725  |  | - |
| Other non-cash adjustments to reconcile profit before tax to net cash flows |  |  - |  |  327 |
| **Operating cash flows before movements in working capital** |  |  218,778 |  |  202,880 |
|  |  |  |  |  |
| *Working capital adjustments* |  |  |  |  |
| Change in inventories | *8* |  17,195  |  |  72,382 |
| Change in biological assets | *9* |  (136,301) |  | (159,427) |
| Change in agricultural produce | *8* |  47,868  |  |  59,110 |
| Change in other current assets |  |  (12,066) |  | (4,479) |
| Change in taxes recoverable and prepaid |  |  (35,461) |  |  58,298 |
| Change in trade accounts receivable |  |  6,189  |  | (10,539) |
| Change in other liabilities |  |  16,420  |  | (2,153) |
| Change in trade accounts payable |  |  (6,353) |  | (21,787) |
| **Cash generated by operations** |  |  116,269 |  |  194,285 |
|  |  |  |  |  |
| Interest received |  |  551 |  |  2,050 |
| Interest paid |  | (51,562) |  | (53,758) |
| Income taxes paid |  | (1,063) |  | (6,435) |
| **Net cash flows from operating activities** |  |  64,195 |  |  136,142 |
|  |  |  |  |  |
| **Investing activities** |  |  |  |  |
|  |  |  |  |  |
| Purchases of property, plant and equipment | *7* | (60,959) |  | (55,208) |
| Purchases of other non-current assets |  | (529) |  | (5,263) |
| Purchase of land lease rights |  | (1,189) |  | (4,041) |
| Purchase of subsidiaries | *3* | (2,190) |  | - |
| Proceeds from disposals of property, plant and equipment |  | (359) |  |  293 |
| Purchases of non-current biological assets |  | (576) |  | (31) |
| Withdrawals of short-term deposits |  |  120 |  | - |
| Loans repaid by/(provided to) employees |  | (302) |  | 150 |
| **Net cash flows used in investing activities** |  | (65,984) |  | (64,100) |
|  |  |  |  |  |
| **Financing activities** |  |  |  |  |
|  |  |  |  |  |
| Proceeds from bank borrowings |  |  390,638 |  |  39,496 |
| Repayment of bank borrowings |  | (116,645) |  | (56,097) |
| Repayment of bonds |  | (219,567) |  | - |
| Repayment of finance lease obligations |  | (8,718) |  | (10,691) |
| Dividends paid |  | (49,996) |  | (74,285) |
| **Net cash flows from financing activities** |  | (4,288) |  | (101,577) |
|  |  |  |  |  |
| Net decrease in cash and cash equivalents |  | (6,077) |  | (29,535) |
| Net foreign exchange difference |  | (13,062) |  | (21,348) |
| Cash and cash equivalents at 1 January |  |  99,628 |  |  172,470 |
| **Cash and cash equivalents at 30 June** |  |  80,489 |  |  121,587 |

*The accompanying notes on the pages 10 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(continued)*

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Non-cash transactions** |  |  |  |  |
| Effect of revaluation of property, plant and equipment |  |  104,900  |  | 108,553 |
| Additions of property, plant and equipment financed through direct bank-lender payments to the vendor |  |  -  |  | 1,569 |
| Additions of property, plant and equipment under finance leases |  |  84 |  | - |
| Property, plant and equipment purchased for credit |  |  1,342  |  | (439) |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 10 to 21 form an integral part of these interim condensed consolidated financial statements*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

1. Corporate information

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

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

The principal business activities of the Group are poultry and related operations, grain growing, as well as other agricultural operations (meat processing, cultivation and selling fruits and producing beef and meat products ready for consumption). The Group’s poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age (“grow-out”), processing and marketing of branded chilled products including the production and sale of chicken products, sunflower oil, mixed fodder and convenience food products. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, beef, milk, goose meat, foie gras, fruits and feed grains. During the six-month period ended 30 June 2015 the Group employed about 30,600 people (31 December 2014: 30,700 people).

During 2015 the Group has carried out construction of new production facilities at Peremoga Nova chicken farm. The project is aimed to cover the shortage of internal production of hatching eggs due to suspension of production at Shahtarska Nova breeding farm. As of the reporting date, the construction has been accomplished, production of hatchery eggs commenced in June 2015.

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent’s effective ownership interest as of 30 June 2015 and 31 December 2014 were as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Name* | *Country of registration* | *Year established/**Acquired* | *Principal activities* | *30 June 2015* | *31 December 2014* |
| Raftan Holding Limited  | Cyprus | 2006 | Sub-holding Company | 100.0% | 100.0% |
| MHP | Ukraine | 1998 | Management, marketing and sales | 99.9% | 99.9% |
| Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv  | Ukraine | 1998 | Fodder and sunflower oil production | 88.5% | 88.5% |
| Vinnytska Ptahofabryka | Ukraine | 2011 | Chicken farm | 99.9% | 99.9% |
| Peremoga Nova  | Ukraine | 1999 | Chicken farm | 99.9% | 99.9% |
| Druzhba Narodiv Nova  | Ukraine | 2002 | Chicken farm | 100.0% | 100.0% |
| Oril-Leader  | Ukraine | 2003 | Chicken farm | 99.9% | 99.9% |
| Tavriysky Kombikormovy Zavod  | Ukraine | 2004 | Fodder production | 99.9% | 99.9% |
| Myronivska Ptahofabryka | Ukraine | 2004 | Chicken farm | 99.9% | 99.9% |
| Starynska Ptahofabryka  | Ukraine | 2003 | Breeder farm | 95.0% | 95.0% |
| Ptahofabryka Snyatynska Nova  | Ukraine | 2005 | Geese breeder farm | 99.9% | 99.9% |
| Zernoproduct | Ukraine | 2005 | Grain cultivation | 89.9% | 89.9% |
| Katerynopilsky Elevator | Ukraine | 2005 | Fodder production and grain storage, sunflower oil production | 99.9% | 99.9% |
| Druzhba Narodiv  | Ukraine | 2006 | Cattle breeding, plant cultivation | 99.9% | 99.9% |
| NPF Urozhay  | Ukraine | 2006 | Grain cultivation | 99.9% | 99.9% |
| Agrofort  | Ukraine | 2006 | Grain cultivation | 86.1% | 86.1% |
| Urozhayna Krayina | Ukraine | 2010 | Grain cultivation | 99.9% | 99.9% |
| Ukrainian Bacon | Ukraine | 2008 | Meat processing | 79.9% | 79.9% |
| AgroKryazh | Ukraine | 2013 | Grain cultivation | 99.9% | 99.9% |
| Baryshevka | Ukraine | 2013 | Grain cultivation | 51.0% | 51.0% |
| Agro Zakhid MHP[[1]](#footnote-1) | Ukraine | 2015 | Grain cultivation | 100.0% | 0.0% |
| Voronezh Agro Holding1 | Russian Federation | 2013 | Grain cultivation | 0.0% | 100.0% |
| Scylla Capital Limited | British Virgin Islands | 2014 | Trading in sunflower oil and poultry meat | 100.0% | 100.0% |

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

1. Corporate information *(continued)*

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

1. Basis of preparation and accounting policies

***Basis of preparation***

The interim condensed consolidated financial statements for the six-month period ended 30 June 2015 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been condensed or omitted. However, such information reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of the Group management, necessary to fairly state the results of interim periods. Interim results are not necessarily indicative of the results to be expected for the full year.

The 31 December 2014 statement of financial position was derived from the audited consolidated financial statements.

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

The adoption of the new or revised Standards did not have any effect on the financial position or performance of the Group and did not result in any changes to the Group’s accounting policies and the amounts reported in the six-month period ended 30 June 2015 or prior periods.

***Functional and presentation currencies***

The functional currency of Ukrainian, Cyprus and Luxemburg companies of the Group is the Ukrainian Hryvnia (“UAH”); the functional currency of the Group companies located in the Russian Federation is the Russian Rouble (“RUB”). Transactions in currencies other than the functional currency of the entities concerned are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. All realized and unrealized gains and losses arising on exchange differences are recognised in the consolidated statement of comprehensive income for the period.

These interim condensed 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 statement of financial position presented are translated at the closing rate as of the date of that statement of financial position;
* Income and expenses for each statement of comprehensive income are translated at exchange rates at the dates of the transactions;
* All resulting exchange differences are recognized as a separate component of equity.

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

The following exchange rates were used:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Currency* | *Closing rate as of 30 June 2015* | *Average for six- months ended 30 June 2015* | *Closing rate as of 31 December 2014* | *Average for six- months ended 30 June 2014* | *Closing rate as of 31 December 2013* |
| UAH/USD |  21.0154 |  21.3649 |  15.7686 | 10.2873 | 7.9930 |
| UAH/EUR |  23.5414 |  23.8303 |  19.2329 | 14.1060 | 11.0415 |
| UAH/RUB |  0.3834 |  0.3764 |  0.3030 | 0.2940 | 0.2450 |

Notes to the Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

**2. Basis of preparation and accounting policies** *(continued)*

***Significant accounting policies***

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014, except those adopted starting from 1 January 2015 as described previously in this note.

***Seasonality of operations***

Poultry and related operations as well as other agricultural operations are not significantly exposed to seasonal fluctuations. Grain growing segment, due to seasonality and implications of IAS 41, in the first half of the year mainly reflects sales of carried forward agricultural produce and the effect of biological assets revaluation, while during the second half of the year it reflects sales of crops and the effect of revaluation of agricultural produce harvested during the year. Also, grain growing segment has seasonal requirements for working capital increase during November – May, due to the sowing campaign.

1. Changes in the group structure

***Acquisitions***

In May 2015 the Group has signed an asset swap agreement with Agrokultura AB, whereby the equity ownership in Voronezh Agro Holding was swapped with the equity ownership in group of companies Agrokultura Ukraine. The transaction has been completed with effective transfer of control in June 2015.

Voronezh Agro Holding, is a grain growing business, cultivating a land bank of about 40,000 hectares in the Voronezh region of the Russian Federation, with approximately 150,000 tonnes of grain storage capacities.

Group of companies Agrokultura Ukraine is a grain growing business cultivating a land bank of about 60,000 hectares in Lviv, Ternopil and Ivano-Frankivsk regions of Ukraine, with approximately
90,000 tonnes of grain storage capacities.

The following table presents the fair value of identifiable assets and liabilities of group of companies Agrokultura Ukraine acquired:

|  |  |  |
| --- | --- | --- |
| Property, plant and equipment |  |  27,194 |
| Land lease rights |  |  25,663 |
| Other non-current assets less non-current liabilities |  |  (412) |
| Deferred tax liability |  | (1,834) |
| Biological assets |  |  13,977 |
| Current assets less current liabilities |  | 654 |
| Cash and cash equivalents |  | 115 |
| **Total consideration received** |  | **65,357**  |

The following table presents the carrying amount of identifiable assets and liabilities of Voronezh Agro Holding at the date of disposal:

|  |  |  |
| --- | --- | --- |
| Property, plant and equipment |  |  46,754  |
| Other non-current assets less non-current liabilities |  |  (5) |
| Biological assets |  |  15,844  |
| Other current assets less current liabilities |  |  2,920  |
| Cash and cash equivalents |  |  2,305  |
| **Net assets disposed** |  |  **67,818**  |

The following table presents the net result of the transaction:

|  |  |  |
| --- | --- | --- |
| Total consideration received |  | 65,357 |
| Net assets disposed |  | (67,818) |
| Non-controlling interest disposed |  | 1,002 |
| Cumulative translation reserve in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control in subsidiary |  | (3,266) |
| **Loss on disposal** |  |  **(4,725)** |

Notes to the Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

**3. Changes in the group structure** *(continued)*

As acquisition of group of companies Agrokultura Ukraine was conducted through exchange of equity interest, only the consideration received has been measured by using acquisition date fair value of equity interest in group of companies Agrokultura Ukraine.

Cumulative exchange loss in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary relates to the reclassification of translation difference on consolidation of foreign subsidiaries, previously recognised in other comprehensive loss.

1. Segment information

The following table presents revenue and profit information regarding the Group’s operating segments for the six-month period ended 30 June 2015:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | *Poultry* *and related operations* | *Grain growing* | *Other agricultural operations* | *Eliminations* | *Consolidated* |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| External sales |  451,918  |  52,196  |  46,881  |  |  550,995  |
| Sales between business segments |  11,081  |  42,580  |  910  |  (54,571) |  -  |
| **Total revenue** |  462,999  |  94,776  |  47,791  |  (54,571) |  550,995  |
| **Segment results** |  173,622  |  61,956  |  4,093  |  -  |  239,671  |
| Unallocated corporate expenses |  |  |  |  |  (5,150) |
| Other expenses, net*1)* |  |  |  |  |  (315,115) |
| **Loss before tax** |  |  |  |  |  (80,594) |
| **Other information:** |  |  |  |  |  |
| Depreciation and amortization expense*2)* |  32,013  |  384  |  2,637  |  -  |  35,034  |
|  |  |  |  |  |  |
| Net change in fair value of biological assets and agricultural produce (Note 5) |  20,307  |  31,139  |  (1,421) |  -  |  50,025  |

***1)*** Includes finance income, finance costs, foreign exchange loss (net) and other expenses (net).

***2)*** Depreciation and amortization for the six-month period ended 30 June 2015 does not include unallocated depreciation and amortization in the amount of USD 407 thousand.

The following table presents revenue and profit information regarding the Group’s operating segments for the six-month period ended 30 June 2014:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | *Poultry* *and related operations* | *Grain growing* | *Other agricultural operations* | *Eliminations* | *Consolidated* |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| External sales |  553,917 |  18,958 |  64,392 |  - |  637,267 |
| Sales between business segments |  11,347 |  54,222 |  971 | (66,540) |  - |
| **Total revenue** |  565,264 |  73,180 |  65,363 | (66,540) |  637,267 |
| **Segment results** |  198,184 |  42,615 |  7,034 |  - |  247,833 |
| Unallocated corporate expenses |  |  |  |  | (20,376) |
| Other expenses, net*1)* |  |  |  |  | (510,692) |
| **Loss before tax** |  |  |  |  | (283,235) |
| **Other information:** |  |  |  |  |  |
| Depreciation and amortization expense*2)* |  39,778 |  493 |  2,799 |  - |  43,070 |
|  |  |  |  |  |  |
| Net change in fair value of biological assets and agricultural produce |  37,156 |  43,343 | (759) |  - |  79,740 |
|  |  |  |  |  |  |

***1)*** Includes finance income, finance costs, foreign exchange loss (net) and other expenses (net).

***2)*** Depreciation and amortization for the six-month period ended 30 June 2014 does not include unallocated depreciation and amortization in the amount of USD 1,070 thousand.

Notes to the Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

1. Loss for the period

The Group’s net loss for the six-month period ended 30 June 2015 amounted to USD 61,196 thousand, mainly related to unrealized foreign exchange loss in amount of USD 254,489 mostly attributable to bonds and borrowings denominated in foreign currencies due to UAH depreciation against USD and EUR.

Gross profit decreased by 7%, mainly on domestic market as a result of UAH depreciation against USD, and amounted to USD 245,006 thousand for the six-month period ended 30 June 2015 compared to
USD 263,751 thousand for the six-month period ended 30 June 2014.

Operating profit remained relatively flat. A moderate increase of 3% to USD 234,521 thousand for the six-month period ended 30 June 2015 compared to USD 227,457 thousand for the six-month period ended
30 June 2014 is mainly related to decrease in USD equivalent of operating expenses that are fixed in UAH as a result of UAH depreciation against USD.

Net change in fair value reflects IAS 41 adjustment relating to revaluation of crops in fields, poultry stock and other biological assets balances to the fair value as of 30 June 2015**.**

1. Income tax benefit

The Group has recognised income tax benefit in the amount of USD 19,398 thousand mainly as a result of recognition of deferred tax assets arising from tax losses carried forward to the extent of deferred tax liabilities recognised on revaluation of property plant and equipment (Note 7). The effect of recognition of deferred tax liabilities on revaluation of property, plant and equipment was recognised in other comprehensive loss.

1. Property, plant and equipment

During the six-months period ended 30 June 2015 the Group engaged independent appraiser to determine fair value of its vehicles, production and agricultural machinery. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of vehicles and machinery or for items of specialized nature using the replacement cost method. The excess of fair value over carrying value in the amount of USD 104,900 thousand was recognised in revaluation reserve.

During the six-month period ended 30 June 2015, the Group’s additions to property, plant and equipment amounted to USD 58,704 thousand (six-month period ended 30 June 2014: USD 64,771 thousand).

There were no significant disposals of property, plant and equipment during the six-month period ended
30 June 2015.

1. Inventories and agricultural produce

Decrease in inventory and agricultural produce balances as of 30 June 2015 compared to
31 December 2014 is mostly attributable to translation difference owing to depreciation of UAH against USD. Changes of inventory balance apart from consumption of purchased grain stock have also occurred because as of 31 December 2014 expenses incurred in cultivating of fields which had to be planted in spring 2015 were capitalised in work in progress balance. As of 30 June 2015 those expenses were classified as crops in fields within biological assets, as the plants were already sown.

Change in agricultural produce is mainly attributable to internal consumption of grain stock harvested in 2014, as well as UAH devaluation.

1. Biological assets

Increase in current biological assets as compared to 31 December 2014 is primarily related to crops in fields balance. The increase in crops in fields balance mainly relates to spring crops seeded in the first half of 2015 classified as biological assets as well as due to IAS 41 revaluation adjustment.

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

1. Bank borrowings

The following table summarizes bank borrowings and credit lines outstanding as of 30 June 2015 and
31 December 2014:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | *30 June 2015* |  | *31 December 2014* |  |
| *Bank* |  | *Currency* |  | *WAIR* ***1)*** | *USD’ 000* |  | *WAIR* ***1)*** | *USD’ 000* |  |
|  |  |  |  |  |  |  |  |  |  |
| **Non-current** |  |  |  |  |  |  |  |  |  |
| Foreign banks |  | USD |  | 7.11% |  251,403  |  | 5.83% |  71,535  |  |
| Foreign banks |  | EUR |  | 1.59% |  59,486  |  | 1.72% |  80,767  |  |
|  |  |  |  |  |  310,889 |  |  |  152,302  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Current** |  |  |  |  |  |  |  |  |  |
| Ukrainian banks | USD |  | 6.46% |  53,500  |  | - | - |  |
| Foreign banks | USD |  | 5.96% |  50,000  |  | 5.98% | 10,000  |  |
| Ukrainian banks | UAH |  | - | - |  | 14.25% | 6,976 |  |
|  |  |  |  |  |  |  |  |  |  |
| Current portion of long-term bank borrowings |  |  |  |  |  72,226  |  |  |  64,354  |  |
|  |  |  | 175,726 |  |  | 81,330 |  |
|  |  |  |  |  |  |  |  |
| **Total bank borrowings** |  |  | 486,615 |  |  | 233,632 |  |

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

As of 30 June 2015 and 31 December 2014 accrued interest on bank borrowings were
USD 6,843 thousand and USD 2,918 thousand, respectively.

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

All bank loans and credit lines held by the Group as of 30 June 2015 and 31 December 2014 bear the floating interest rates.

Bank borrowings and credit lines outstanding as of 30 June 2015 and 31 December 2014 were repayable as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *30 June 2015* |  | *31 December 2014* |
|  |  |  |  |
| Within one year | 175,726 |  |  81,330  |
| In the second year | 108,629 |  |  64,243  |
| In the third to fifth year inclusive | 200,676 |  |  84,598  |
| After five years | 1,584 |  |  3,461  |
|  |  486,615 |  |  233,632  |

As of 30 June 2015, the Group had available undrawn facilities of USD 72,375 thousand
(31 December 2014: USD 421,892 thousand). These undrawn facilities expire during the period from September 2015 until July 2020.

As of 30 June 2015, the Group had borrowings of USD 50,000 thousand (31 December 2014:
USD 10,000 thousand) that were secured. These borrowings were secured by inventories with a carrying amount of USD 62,500 thousand (31 December 2014: USD 12,500 thousand).

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

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

1. Bonds issued

Bonds issued and outstanding as of 30 June 2015 and 31 December 2014 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *30 June 2015* |  | *31 December 2014* |
|  |  |  |  |
| 8.25% Senior Notes due in 2020 |  750,000 |  |  750,000  |
| 10.25% Senior Notes due in 2015 |  - |  |  219,567  |
| Unamortized premium on bonds issued |  - |  |  760  |
| Unamortized debt issue cost | (23,520) |  |  (27,250)  |
|  |  726,480 |  |  943,077  |
| *Less:* |  |  |  |
| Current portion of bonds issued |  - |  |  (218,555)  |
| **Total long-term portion of bonds issued** |  726,480 |  |  724,522  |

As of 30 June 2015 and 31 December 2014 amount of accrued interest on bonds issued was
USD 15,008 thousand and USD 18,820 thousand, respectively.

***8.25% Senior Notes***

On 8 April 2013, MHP S.A. issued USD 750,000 thousand 8.25% Senior Notes due in 2020 at an issue price of 100% of the principal amount. USD 350,000 thousand out of issued USD 750,000 thousand 8.25% Senior Notes were used to early redemption and exchange of its existed 10.25% Senior Notes due in 2015.

Early redemption of 10.25% Senior Notes due in 2015 out of issue of 8.25% Senior Notes due in 2020 placed with the same holders and the change in the net present value of the future cash flows was less than 10% is accounted as exchange and all the related expenses, including consent fees, were capitalized and will be amortized over the maturity period of the 8.25% Senior Notes due in 2020 in the amount of
USD 28,293 thousand.

Other related expenses, including consent fees, in the amount of USD 16,515 thousand were expensed as incurred.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Druzhba Narodiv, Druzhba Narodiv Nova, Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv, Oril-Leader, Katerynopilsky Elevator, Ptahofabryka Peremoga Nova, Zernoproduct, Myronivska Ptahofabryka, Starynska Ptahofabryka, Agrofort, NPF Urozhay, Vinnytska Ptahofabryka, Raftan Holding Limited,
Scylla Capital Limited.

***10.25% Senior Notes***

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

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

Interest on 8.25% Senior Notes and 10.25% Senior Notes is payable semi-annually in arrears. Save for exceptions provided for in the Indenture, these Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to EBITDA ratio, as defined by the Indenture, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed which constitutes Event of Default under the Indenture, all outstanding Senior Notes will become due and payable without further action or notice. If a change of control occurs, the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

11. Bonds issued *(continued)*

On 29 April 2015, the Group has repaid it’s 10.25% Senior Notes due 29 April 2015 in amount of
USD 220,000 thousand using syndicated loan facility of IFC, a member of World Bank Group, which provided the Group with USD 200,000 thousand (USD 175,000 thousand from IFC and USD 25 million from ING Bank), and the Company’s cash from operations.

During the reporting periods ended 30 June 2015 and 31 December 2014 the Group has complied with all covenants defined by indebtedness agreement.

The weighted average effective interest rate on the Senior Notes is 9.75% per annum and 9.92% per annum for the six-months ended 30 June 2015 and 2014, respectively.

1. Related party balances and transactions

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

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

***Transactions with related parties under common control***

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

Terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. Management believes that amounts receivable due from related parties do not require an allowance for irrecoverable amounts and that the amounts payable to related parties will be settled at cost.

Transactions with related parties during the six-month periods ended 30 June 2015 and 2014 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | *2015* |  | *2014* |
|  |  |  |  |
| Sales of goods to related parties |  161 |  | 111  |
| Sales of services to related parties |  - |  | 13  |
| Purchases from related parties |  28 |  | 5  |

The balances owed to and due from related parties were as follows as of 30 June 2015 and
31 December 2014:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *30 June 2015* |  | *31 December 2014* |
|  |  |  |  |
| Trade accounts receivable  |  156 |  | 213 |
| Payables due to related parties |  21 |  | 5 |
| Advances and finance aid  |  1,333 |  | 1,761 |

***Compensation of key management personnel***

Total compensation of the Group’s key management personnel (including compensation to Mr. Yuriy Kosyuk), which consists of contractual salary and performance bonuses amounted to
USD 4,717 thousand and USD 3,864 thousand for the six-month periods ended 30 June 2015 and 2014, respectively.

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

1. Contingencies and contractual commitments

***Operating environment***

In 2014, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Political unrest and separatist movements in Eastern Ukraine evolved into armed conflict in certain parts of Luhansk and Donetsk regions effectively resulting in a loss of control over these territories by the Government of Ukraine.

Economic recession has led to a significant fall in a gross domestic product, decline of international trade, deterioration of the state’s finances and significant devaluation of the Ukrainian Hryvnia against major foreign currencies. The ratings of Ukrainian sovereign debt have been downgraded by major international rating agencies. These factors have had a negative effect on the Ukrainian companies and banks hampering their ability to obtain funding from domestic and international financial markets. Ukraine has a large external debt refinancing requirement in the next few years.

The National Bank of Ukraine (“NBU”) introduced a range of measures aimed at limiting the outflow of foreign currencies from the country, inter alia, a mandatory sale of 75% of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, limitations on remittances abroad, as well as limitations for individuals for foreign currency purchases and bank withdrawals. Such measures are aimed to decrease capital outflows and do not have significant adverse impact on day to day business activities. In addition, the Government of Ukraine has been taking efforts in attracting significant external financing, primarily from the International Monetary Fund, as well as negotiating terms and conditions with external creditors as to the curtailing and restructuring the terms of repayment of the principal amount of external debt.

Stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian Government’s and NBU activities, yet further economic and political developments, as well as the impact of these factors on the Group, its customers and contractors are currently difficult to predict.

***Taxation***

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

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

***Legal issues***

In the ordinary course of business, the Group is subject to legal actions and complaints. As of
30 June 2015, Group companies had ongoing litigations with the tax authorities related to disallowance of certain amounts of VAT refunds and deductible expenses claimed by the Group. According to the assessment performed by the management of the Group on a case by case basis the maximum exposure of the Group to such risks as of 30 June 2015 amounted to USD 11,418 thousand (31 December 2014: USD 21,969 thousand). Out of this amount, USD 8,635 thousand (31 December 2014:
USD 17,250 thousand) relates to cases where court hearings took place and where the court in either the first or second instance has already ruled in favour of the Group. Based on past history of court resolutions of similar lawsuits the management believes that possible exposure relating to these court cases amounts to approximately USD 2,783 thousand as of 30 June 2015 (31 December 2014: USD 2,919 thousand).

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

**13. Contingencies and contractual commitments (continued)**

***Contractual commitments on purchase of property, plant and equipment***

During the six-month period ended 30 June 2015, 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 30 June 2015, purchase commitments on such contracts were primarily related to construction of new facilities at poultry rearing farms and amounted to USD 17,816 thousand
(31 December 2014: USD 9,844 thousand).

1. Fair value of financial instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 “Financial Instruments: Disclosure” and 13 “Fair value measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Carrying amount* |  | *Fair value* |
|  | *30 June* *2015* | *31 December 2014* |  | *30 June* *2015* | *31 December 2014* |
|  |  |  |  |  |  |
| ***Financial liabilities*** |  |  |  |  |  |
|  |  |  |  |  |  |
| Bank borrowings *(Note 10)* |  493,458  |  236,550  |  |  477,877  |  233,419  |
| Senior Notes due in 2015 *(Note11)* |  -  |  222,250  |  |  -  |  222,442  |
| Senior Notes due in 2020 *(Note 11)* |  741,488  |  739,647  |  |  606,098  |  503,625  |
| Finance lease obligations  |  30,354  |  38,599  |  |  30,274  |  38,399  |

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

The fair value of bank borrowings and finance lease obligations was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings: 7.9% (2014: 6.0%) and for finance lease obligations of 7.5% (2014: 7.5%), and is within Level 2 of the fair value hierarchy.

The fair value of Senior Notes was estimated based on market quotations and is within Level 1 of the fair value hierarchy.

1. Risk management policy

During the six-month period ended 30 June 2015 there were no changes to objectives, policies and processes for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

***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, Group management sets limits on the level of exposure to foreign currency fluctuations.

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the six-month period ended 30 June 2015**

*(in thousands of US dollars, unless otherwise indicated)*

**15. Risk management policy** *(continued)*

The carrying amounts of the Group’s foreign currency denominated monetary assets and liabilities as of
30 June 2015 and 31 December 2014 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | *30 June 2015* |  | *31 December 2014* |
|  | *USD* | *EUR* |  | *USD* | *EUR* |
|  |  |  |  |  |  |
| Total assets |  65,349 |  11,041 |  | 110,988 | 5,613 |
| Total liabilities |  (1,193,593)  | (105,388)  |  | (1,103,984) | (133,719) |
| Net position |  (1,128,244) |  (94,347) |  |  (992,996) |  (128,106) |

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Change in foreign currency exchange rates* |  | *Gain/(Loss)*  |
| *six-month period ended 30 June 2015* |  |  |  |
|  |  |  |  |
| Increase in USD exchange rate  | 10% |  | (112,824) |
| Increase in EUR exchange rate | 10% |  | (9,435) |
|  |  |  |  |
| Decrease in USD exchange rate  | 5% |  |  56,412 |
| Decrease in EUR exchange rate | 5% |  |  4,717 |
|  |  |  |  |
| *six-month period ended 30 June 2014* |  |  |  |
|  |  |  |  |
| Increase in USD exchange rate  | 10% |  | (112,732) |
| Increase in EUR exchange rate | 10% |  | (16,335) |
|  |  |  |
| Decrease in USD exchange rate  | 5% |  | 56,366 |
| Decrease in EUR exchange rate | 5% |  | 8,168 |
|  |  |  |  |

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

During the six-month period ended 30 June 2015, EUR and USD has appreciated against the Ukrainian Hryvnia by 22.4% and 33.3%, respectively (six-month period ended 30 June 2014: EUR and USD appreciated by 45.7% and 47.9% relative to UAH, respectively). As a result, during the six-month period ended 30 June 2015 the Group recognised net foreign exchange loss in the amount of
USD 254,489 thousand (six-month period ended 30 June 2014: foreign exchange loss in the amount of USD 454,355 thousand) in the consolidated statement of comprehensive income.

1. Dividends

On 28 April 2015, the Board of Directors of MHP S.A. approved payment of the interim dividend. On
14 May 2015 MHP paid dividend to shareholders in amount of USD 0.47429 per share, equivalent to approximately USD 50,000 thousand.

1. Authorization of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors of MHP S.A. on 27 August 2015.

1. Refer to Note 3 for Changes in the group structure [↑](#footnote-ref-1)