

**PRESS RELEASE**

19 November 2015, Kyiv, Ukraine

**MHP S.A.**

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

**Nine Months Ended 30 September 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 third quarter and nine months ended 30 September 2015.

**OPERATIONAL HIGHLIGHTS**

***Q3 2015 highlights***

* Production volumes reached 142,295 tonnes, up by 6% year-on-year (Q3 2014: 133,700 tonnes), predominantly due to the increasing production volumes at the Vinnytsia poultry farm
* The average chicken price increased by 25% year-on-year to UAH 27.62 per kg (excluding VAT) mainly due to the Ukrainian Hryvnia depreciation
* Chicken meat export decreased by 22% to 34,585 tonnes (Q3 2014: 44,580 tonnes) as a result of decreased exports to the CIS region

***9M 2015 highlights***

* Production volumes increased by 4% to 420,720 tonnes (9M 2014: 403,300 tonnes)
* The average chicken price increased by 45% to UAH 26.92 per kg (excluding VAT) compared to UAH 18.61 (US$ 1.68) in 9M 2014 predominantly due to the Ukrainian Hryvnia depreciation
* Chicken meat export decreased by 2% to 100,600 tonnes (9M 2014: 102,145 tonnes)
* Construction of Peremoga Nova breeding farm is being completed, with first hatchery egg produced in June 2015

**FINANCIAL HIGHLIGHTS**

***Q3 2015 highlights***

* Revenue of US$ 347 million, a decrease of 13% year-on-year
* Export revenue amounted to US$ 165 million, 48% of total revenue (Q3 2014: US$ 178 million, 45% of total revenue)
* Operating profit of US$ 80 million decreased by 48%; overall operating margin was 23%
* EBITDA margin lowered to 33%, US$ 116 million from 46%, US$ 181 million
* Net profit for the period is US$ 24 million, compared to loss US$ 32 million for the Q3 2014

***9M 2015 highlights***

* Revenue of US$ 898 million, decrease of 13% year-on-year
* Export revenue amounted to US$ 406 million, 45% of total revenue (9M 2014: US$ 412 million, 40% of total revenue)
* Operating profit of US$ 315 million, decrease by 17% year-on-year
* EBITDA amounted to US$ 386 million, decrease by 15% y-o-y, EBITDA margin is 43%, last year - 44%
* Net loss of US$ 37 million, including US$ 289 million related to non-cash foreign exchange translation losses

**FINANCIAL OVERVIEW**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$, unless indicated otherwise)* |  | **Q3 2015** |  | **Q3 2014** | *% change\** |  | **9M 2015** |  | **9M 2014** | *% change\** |
|  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Revenue** |  |  **347** |  |  **397** | **-13%** |  |  **898** |  | **1,034** | **-13%** |
| IAS 41 standard gains |  |  4 |  |  1 | n/a |  |  54 |  | 81 | -33% |
|  |  |  |  |  |  |  |  |  |  |  |
| **Gross profit** |  |  **74** |  |  **153** | **-52%** |  |  **319** |  |  **417** | **-24%** |
| *Gross profit margin* |  | *21%* |  | *39%* | *-18 pps* |  | *36%* |  | *40%* | *-4 pps* |
|  |  |  |  |  |  |  |  |  |  |  |
| **Operating profit** |  |  **80** |  |  **154** | **-48%** |  |  **315** |  |  **381** | **-17%** |
| *Operating profit margin* |  | *23%* |  | *39%* | *-16 pps* |  | *35%* |  | *37%* | *-2 pps* |
|  |  |  |  |  |  |  |  |  |  |  |
| **EBITDA** |  |  **116** |  |  **181** | **-36%** |  |  **386** |  |  **453** | **-15%** |
| *EBITDA margin* |  | *33%* |  | *46%* | *-13 pps* |  | *43%* |  | *44%* | *-1 pps* |
|  |  |  |  |  |  |  |  |  |  |  |
| **Net profit before foreign exchange differences** |  |  **59** |  |  **75** | **-21%** |  |  **252** |  |  **259** | **-3%** |
| *Net profit margin before forex gain/(loss)*  |  | *17%* |  | *19%* | *-2 pps* |  | *28%* |  | *25%* | *3 pps* |
| Foreign exchange gain/(loss) |  | (35) |  | (107) | n/a |  | (289) |  | (561) | n/a |
|  |  |  |  |  |  |  |  |  |  |  |
| **Net profit** |  |  **24** |  | **(32)** | **-175%** |  | **(37)** |  | **(302)** | **-88%** |
| *Net profit margin* |  | *7%* |  | *-8%* | *15 pps* |  | *-4%* |  | *-29%* | *25 pps* |

*\* pps – percentage points*

*Average official FX rate for Q3: UAH/US$ 21.7219 in 2015 and UAH/US$ 12.5772 in 2014*

*Average official FX rate for 9M: UAH/US$ 21.4852 in 2015 and UAH/US$ 11.0589 in 2014*

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

“Our Company continues to develop despite all challenges in Ukraine.

In line with the Company strategy, we are going to sustain a leading market position in Ukraine and develop our export direction worldwide with a substantial growth of hard currency revenues in the near future.

In line with our plans we are building new poultry capacities and expand our land bank. Our target for 2016 is to start construction of the Vinnytsia poultry complex, Phase 2 (first 130,000 tonnes facility), so that the first rearing sites will become operational in a year time.

I have an optimistic view about the Company and its prospective; therefore I believe our strategy of further growth will drive the Company to 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: Thursday, 19 November 2015

Time: 09.00 New York / 14.00 London / 16.00 Kyiv / 17.00 Moscow

Title: Financial Results for Q3 and 9M 2015

International/UK Dial in: +44 (0) 1452 580733

USA free call: 1877 3911148

Russia free call 8108 002 565 2044

Conference ID 75423148

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=29>

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**Segment Performance**

**Poultry and related operations**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Q3 2015** | **Q3 2014** | % change |  | **9M 2015** | **9M 2014** | % change |
|  |  |
|  |  |  |  |  |  |  |  |  |
| **Poultry** |  |  |  |  |  |  |  |  |
| Sales volume, third parties tonnes |  | 150,260 | 144,790  | 4% |  | 407,680 | 396,780 | 3% |
| Price per 1 kg net of VAT, UAH |  | 27.62 | 22.08 | 25% |  | 26.92 | 18.61 | 45% |
|  |  |  |  |  |  |  |  |  |
| **Sunflower oil** |  |   |   |   |  |   |   |   |
| Sales volume, third parties tonnes |  |  71,910 | 74,952 | -4% |  | 217,710 | 212,115 | 3% |
| Price per 1 tonne net of VAT, US$ |  |  801  |  847  | -5% |  | 786 |  853  | -8% |

Aggregate volume of chicken meat sold to third parties in 9M 2015 and Q3 2015 increased moderately by 3% and 4% year-on-year respectively. Domestic sales increased by 4% and 15% year-on-year and constituted 307,080 tonnes and 115,675 tonnes in 9M 2015 and Q3 2015 respectively due to the increased demand for chicken meat on domestic market mainly as a result of change in consumers demand of more affordable meats.

Export sales of Q3 2015 decreased by 22% to 34,585 tonnes compared with corresponding period from a year earlier mainly due to the decreased exports to the CIS region. At the same time, export sales remained relatively flat year-on-year reaching 100 600 tonnes for 9M 2015, as a result of the development of new markets in the countries of Asia, Middle East and Africa, and significant increase in volume of chicken meat exported to the EU countries. The Company continues to explore new opportunities in the EU market. In Q3 2015 MHP has exported around 8,000 tonnes of chicken meat, which is 7% higher than in the same period last year. During 9M 2015 MHP’s sales to the EU has grown by 80%, which resulted in over 19,650 tonnes of chicken meat exported. Among prevailing export destinations there are 17 countries: the Netherlands, Germany, Romania, Poland, Ireland, Belgium, Cyprus, Italy, Lithuania, Estonia and others.

The average chicken meat price in Q3 2015 remained stable compared to Q2 2015. At the same time the average Q3 2015 price increased by 25% and reached UAH 27.62 per 1 kg of adjusted weight (excluding VAT). Through the 9M 2015 the aggregate average chicken meat price was UAH 26.92, 45% higher in Hryvnia terms than the corresponding price year-on-year.

During 9M 2015 MHP’s sales of crude sunflower oil than have grown by 3% compared with 9M 2014 and reached 217,710 tonnes. In Q3 2015 the Company sold 4% less crude sunflower oil than 74,952 tonnes exported during Q3 2014. The average sunflower oil sales price decreased by 5% to US$ 801 per tonne in line with global market trends compared with the average sales price of US$ 847 per tonne in Q3 2014.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$, unless indicated otherwise)* |  | **Q3 2015** |  | **Q3 2014** |  | *% change\** |  | **9M 2015** |  | **9M 2014** |  | *% change\** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Revenue** |  |  **263** |  |  **335** |  | **-21%** |  |  **715** |  |  **889** |  | **-20%** |
| *- Poultry and other* |  |  206 |  |  272 |  | -24% |  |  544 |  |  709 |  | -23% |
| *- Sunflower oil* |  |  57 |  |  63 |  | -10% |  |  171  |  |  180 |  | -5% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **IAS 41 standard gains** |  |  **2** |  | **(6)** |  | **n/a** |  |  **22** |  |  **31** |  | **-29%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Gross profit** |  |  **65** |  |  **123** |  | **-47%** |  |  **240**  |  |  **334** |  | **-28%** |
| *Gross margin* |  | 25% |  | 37% |  | -12 pps |  | 34% |  | 38% |  | -4 pps |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **EBITDA** |  |  **81** |  | **146** |  | **-45%** |  |  **286** |  |  **384** |  | **-25%** |
| *EBITDA margin* |  | 31% |  | 44% |  | -13 pps |  | 40% |  | 43% |  | -3 pps |
| *EBITDA per 1 kg (net of IAS 41)* |  | 0.53 |  | 1.05 |  | -50% |  | 0.65 |  | 0.89 |  | -27% |

*\* pps – percentage points*

Revenue of Poultry and related operations segment of Q3 2015 and 9M 2015 has decreased by 21% and 20% year-on-year respectively. Despite increase in chicken meat prices denominated in UAH, its US$ equivalent has decreased as a result of strong devaluation of Hryvnia against US$, consequently leading to the overall decrease in US$ equivalent revenues.

Gross profit of the poultry and related operations segment for the 9M 2015 decreased by 28% and amounted to US$ 240 million, mainly as a result of increase in costs by approximately 50%, partly offset but to a lesser extent by increase in sales prices. The main drivers of increase in cost of production are imported hatchery eggs as a result of suspension of production at Shahtarska breeder farm as well as increase in protein prices used in production of mixed fodder.

**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 crops are as high as 6.1 t/ha for wheat, 3.1 for sunflower and 3.4 t/ha for rapeseeds in net weight, significantly higher than Ukraine’s average.

On the other hand unfavorable weather conditions have led to lower yields of corn and soya compared to previous expectations, however, still well above Ukraine’s averages.

|  |  |  |  |
| --- | --- | --- | --- |
|  | ***2015 [1]*** |  | ***2014***  |
|  | ***Production volume*** | ***Cropped*** ***land***  |  | ***Production volume*** | ***Cropped*** ***land*** |
|  |
|  |  *in tonnes* | *in hectares* |  | *in tonnes* | *in hectares* |
| Corn |  857,576***[3]*** |  126,138***[3]*** |  |  1,180,793 |  126,842 |
| Wheat |  322,305 |  53,752 |  |  260,670 |  43,016 |
| Sunflower | 177,924 |  57,541 |  |  167,014 |  49,551 |
| Rapeseed | 76,347 |  22,653 |  |  39,566 |  10,493 |
| Soya |  57,067 |  35,831  |  |  53,867 |  25,462  |
| Other ***[2]*** |  415,111 |  44,085 |  |  324,765 |  34,636  |
| **Total** |  **1,906,330** |  **340,000** |  |  **2,026,675** |  **290,000**  |

***[1]*** *Only land of grain growing segment, including Agrokultura land;*

 ***[2]*** *Including barley, rye, sugar beet and other and excluding land left fallow as part of crop rotation;*

***[3]****Preliminary data for corn, disclosed in bunker weight.*

|  |  |  |  |
| --- | --- | --- | --- |
|  | ***2015*** |  | ***2014*** |
|  | ***MHP’s******average [1]*** | ***Ukraine’s average [1]*** |  | ***MHP’s******average [1]*** | ***Ukraine’s average[1]*** |
|  | *tonnes per hectare* |  | *tonnes per hectare* |
|  |  |  |  |  |  |
| Corn |  6.8 ***[2]*** |  5.5 |  | 9.3 |  6.2 |
| Wheat |  6.0 |  3.8 |  |  6.1 |  4.0 |
| Sunflower |  3.1 |  2.2 |  |  3.4 |  1.9 |
| Rapeseed |  3.4 |  1.7 |  |  3.8 |  2.5 |
| Soya |  1.6 |  1.8 |  | 2.1 |  2.2 |

 ***[1]*** *MHP yields are net weight, Ukraine – bunker weight;*

***[2]*** *Preliminary data for corn, disclosed in bunker weight.*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$)* |  | **9M 2015** |  | **9M 2014** |  | *% change* |
|  |  |  |
|  |  |  |  |  |  |  |
| **Revenue** |  |  102  |  |  48  |  | 113% |
|  |  |  |  |  |  |  |
| IAS 41 standard gains |  |  32  |  |  50  |  | -36% |
|  |  |  |  |  |  |  |
| **Gross profit** |  |  66  |  |  67  |  | -1% |
|  |  |  |  |  |  |  |
| **EBITDA** |  |  94  |  |  85  |  | 11% |

Grain growing segment’s revenue of 9M 2015 raised by 113% year-on-year and amounted to
US$ 102 million, a US$ 54 million increase is mainly related to revenue from sale of crops (mainly corn and wheat) harvested in 2014 that remained in stock as of 31 December 2014.

IAS 41 standard gains for 9M 2015 amounted to US$ 32 million. The gain represents the effect of revaluation of agricultural produce (sunflower, corn, wheat and soya) remaining in stock as of
30 September 2015 as well as revaluation of biological assets (mainly corn) to be harvested during
October – November 2015.

EBITDA for the 9M 2015 of grain growing segment has increased by 11% compared to 9M 2014 mainly as a result of additional income generated from sale of crops harvested in 2014. **Other agricultural operations**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Meat processing products** |  | **Q3 2015** | **Q3 2014** | % change |  | **9M 2015** | **9M 2014** | % change |
|  |  |
|  |  |  |  |  |  |  |  |  |
| Sales volume, third parties tonnes |  |  8,960 | 8,778 | 2% |  | 20,950 | 23,950 | -13% |
| Price per 1 kg net VAT, UAH |  | 43.71 | 28.65 | 53% |  | 42.92 | 26.61 | 61% |

Sales volume of meat processing products decreased by 13% year-on-year and amounted to
20 950 tonnes in 9M 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)*   |  | **Q3 2015** | **Q3 2014** | *% change\** | **9M 2015** | **9M 2014** | *% change\** |
|  |
|  |  |  |  |  |  |  |  |
| **Revenue**  |  | **34** | **33** | ***3%*** |  **81**  | **97** | **-16%** |
| *- Meat processing* |  | 20 | 23 | *-13%* |  46  | 62 | -26% |
| *- Other* |  | 14 | 10 | *40%* |  35  | 35 | 0% |
|  |  |  |  |  |  |  |  |
| **IAS 41 standard gains** |  |  **1**  |  **2**  | ***-50%*** |  **-**  |  **1**  | **-100%** |
|  |  |  |  |  |  |  |  |
| **Gross profit** |  | **6** | **6** | ***0%*** |  **13**  | **16** | **-19%** |
| *Gross margin* |  | *18%* | *18%* | *0 pps* | *16%* | *16%* | *0 pps* |
|  |  |  |  |  |  |  |  |
| **EBITDA** |  | **6** | **3** | ***100%*** | **13** | **13** | **0%** |
| *EBITDA margin* |  | *18%* | *9%* | *9 pps* | 16% | 13% | 3 pps |

*\* pps – percentage points*

Segment revenue of 9M 2014 decreased by 16% year-on-year, in line with the reduction of sales volume and amounted to US$ 81 million.

**Current Group financial position and cash flow**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$)* |  | **Q3 2015** |  | **Q3 2014** |  | **9M 2015** |  | **9M 2014** |
|  |  |  |  |  |  |  |  |  |
| **Cash from operations** |  |  **98** |  |  **180** |  |  **265** |  |  **325** |
| Change in working capital |  |  3 |  | (54) |  | (99) |  | (63) |
| **Net Cash from operating activities** |  |  **101** |  |  **126** |  |  **166** |  |  **262** |
|  |  |  |  |  |  |  |  |  |
| Cash used in investing activities |  | (40) |  | (36) |  | (106) |  | (100) |
| Non-cash financing |  |  (7) |  | (2) |  | **(8)** |  | (3) |
| **CAPEX** |  | **(47)** |  | **(38)** |  | **(114)** |  | **(103)** |
|  |  |  |  |  |  |  |  |  |
| *Cash from financing activities* |  | *(36*) |  | *(57)* |  | *(40*) |  | *(159)* |
| *incl. Dividends*  |  |  *-* |  | *(23)* |  | *(50*) |  | *(97)* |
| Non-cash financing |  |  *7* |  |  *2* |  |  *8* |  |  *3* |
| Deposits |  |  - |  |  - |  |  - |  |  - |
| **Total financial activities** |  | **(29)** |  | **(55)** |  | **(32**) |  | **(156)** |
|  |  |  |  |  |  |  |  |  |
| **Total change in cash** |  |  **25** |  |  **33** |  |  **20** |  |  **3** |

Cash flow from operations before changes in working capital has decreased and amounted to
US$ 265 million in 9M 2015 (9M 2014: US$ 325 million)\*.

Use of funds in working capital during 9M 2015 is mostly related to crops in fields and seasonal purchases of grain stock (mainly sunflower) in Q3 2015.

In 9M 2015 total CAPEX amounted to US$ 114 million related to the reconstruction of Peremoga Nova poultry farm, expansion of Starynska breeding farm as well as rearing sites expansion on Myronivka and Oril Leader poultry farms and soy oil crushing plant.

Myronivka and Oril Leader farms are being expanded during 2015 and are expected to be launched into operations in early 2016.

**Debt Structure and Liquidity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *(in mln. US$)* |  | **30 September 2015** |  | **30 June 2015** |  | **31 December 2014** |
|  |  |  |  |  |  |  |
| **Total Debt** |  |  **1,213** |  |  **1,243**  |  |  **1,215** |
| LT Debt |  |  1,010 |  |  1,053  |  |  899 |
| ST Debt  |  |  203 |  |  190  |  |  316 |
| Cash  and bank deposits |  | (107) |  |  (80) |  | (100) |
| **Net Debt** |  |  **1,106** |  |  **1,163** |  |  **1,115** |
|  |  |  |  |  |  |  |
| LTM EBITDA |  |  488 |  |  572 |  |  555 |
| *Net Debt / LTM EBITDA* |  |  *2.27* |  |  *2.10* |  |  *2.01* |

As of September 30, 2015, the Company’s debt structure remained relatively unchanged compared to
30 June 2015: the share of long-term debt in the total outstanding debt is about 83%. The weighted average cost of debt is around 8%.

At the end of 9M 2015, MHP’s cash and cash equivalents amounted to US$ 107 million. Net debt remained relatively stable at US$ 1,106 million.

The Net Debt / LTM EBITDA ratio was 2.27 as of 30 September 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 September 2015 amounted to US$ 406 million or 45% of total revenue (US$ 412 million or 40% of total sales in 9M 2014).

*\* Please see paragraph Poultry and related operations and Grain growing operations*

**Dividends**

On 28 April 2015, the Board of Directors of MHP S.A. approved payment of the interim dividend of
US$ 0.47429 per share, equivalent to approximately US$ 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**

Our main drivers for the growth in 2016 will be:

* An increase in production volume of chicken meat by around 40,000 tonnes as a result of our capital investments into expansion of Myronivska and Oril Leader poultry complexes (additional rearing sites)
* An increase in self-sufficiency of hatching eggs in 2016 owing to the transformation of Peremoga Nova (from a broiler to a breeding farm)
* An expansion of landbank: in line with a strategy, MHP continues to consider a few opportunities in the regions so that by the end of 2016 the current landbank will be increased by at least 50,000 ha.

We are confident that due to our vertically integrated business model, we will deliver good financial results, supported by significant and growing share of hard currency revenues from our chicken, oils 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 nine-month period ended 30 September 2015*

**CONTENT**

MANAGEMENT STATEMENT (a)

MANAGEMENT REPORT (b)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE-MONTH PERIOD ENDED 30 September 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 nine-month period ended 30 September 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.

18 November 2015

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

**MANAGEMENT REPORT**

***Key financial highlights***

During the nine-month period ended 30 September 2015 consolidated revenue decreased by 13% and amounted to USD 897,963 thousand, compared to USD 1,033,772 thousand for the nine-month period ended 30 September 2014. Export sales for the nine-month period ended 30 September 2015 constituted 45% of total revenue and amounted to USD 405,688 thousand, compared to USD 411,766 thousand or 40% of total revenue for the nine-month period ended 30 September 2014. Despite increase in chicken meat prices denominated in UAH, its USD equivalent has decreased as a result of strong devaluation of UAH against USD, consequently leading to the overall decrease in USD equivalent revenues.

Gross profit has decreased by 23% and amounted to USD 319,327 thousand for the nine-month period ended 30 September 2015 compared to USD 417,036 thousand for the nine-month period ended
30 September 2014. Decrease in gross profit is mostly related to UAH devaluation against USD effect, which despite increase in UAH denominated sales prices have decreased in USD equivalent and consequently has led to decrease in revenues, partly offset by positive effect on costs (its USD equivalent).

Operating profit decreased by 17% to USD 314,814 thousand for the nine-month period ended
30 September 2015 compared to USD 381,391 thousand for the nine-month period ended 30 September 2014. Since operating costs are majorly fixed in UAH and remained relatively flat, its USD equivalent has decreased due to UAH devaluation against USD, resulting in significantly lower operating expenses.

Net loss from operations for the nine-month period ended 30 September 2015 amounted to
USD 36,990 thousand including foreign exchange loss of USD 289,210 thousand compared to net loss of USD 302,039 thousand for the nine-month period ended 30 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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.

18 November 2015

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOMEfor the nine-month period ended 30 September 2015

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | *Notes* | *Nine-month period ended 30 September 2015* |  | *Nine-month period ended 30 September 2014* |
|  |  |  |  |  |
| Revenue | *4* |  897,963 |  |  1,033,772 |
| Net change in fair value of biological assets and agricultural produce |  |  53,791 |  |  81,304 |
| Cost of sales |  | (632,427) |  | (698,040) |
| **Gross profit** |  |  319,327 |  |  417,036 |
|  |  |  |  |  |
| Selling, general and administrative expenses |  | (54,503) |  | (84,706) |
| VAT refunds and other government grants income |  |  47,684 |  |  67,561 |
| Other operating income/(expenses) |  |  2,306 |  | (18,500) |
| **Operating profit before loss on impairment of assets in Donetsk region** |  |  314,814 |  | 381,391 |
| Loss on impairment of assets in Donetsk region, net |  | - |  | (49,008) |
| **Operating profit** |  |  314,814 |  | 332,383 |
|  |  |  |  |  |
| Finance income |  |  2,199 |  | 3,043 |
| Finance costs |  | (79,407) |  | (83,480) |
| Loss on disposal of subsidiaries | *3* | (4,725) |  | - |
| Foreign exchange loss, net | *14* | (289,210) |  | (560,610) |
| Other expenses, net |  | (1,901) |  | (5,593) |
| **Other expenses, net** |  |  (373,044) |  | (646,640) |
|  |  |  |  |  |
| **Loss before tax** |  |  (58,230) |  | (314,257) |
|  |  |  |  |  |
| Income tax benefit | *6* |  21,240 |  |  12,218 |
|  |  |  |  |  |
| **Loss for the period** | *5* | (36,990) |  | (302,039) |
|  |  |  |  |  |
| **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 |  | 108,170 |
| Deferred tax on property, plant and equipment charged directly to revaluation reserve |  | (16,334) |  | (15,605) |
|  |  |  |  |  |
| **Items that may be reclassified to profit or loss:** |  |  |  |  |
| Cumulative translation difference |  | (202,137) |  | (400,306) |
| **Other comprehensive loss for the period** |  | (113,571) |  | (307,741) |
| **Total comprehensive loss for the period** |  | (150,561) |  | (609,780) |
|  |  |  |  |  |
| (Loss)/income attributable to: |  |  |  |  |
| Equity holders of the Parent |  | (45,902) |  | (308,753) |
| Non-controlling interests |  |  8,912 |  |  6,714 |
|  |  | (36,990) |  | (302,039) |
| Total comprehensive income/(loss) attributable to: |  |  |  |  |
| Equity holders of the Parent |  | (155,539) |  | (607,290) |
| Non-controlling interests |  |  4,978  |  | (2,490) |
|  |  | (150,561) |  | (609,780) |
|  |  |  |  |  |
| **Earnings per share** |  |  |  |  |
| Basic and diluted loss per share (USD per share) |  | (0.44) |  | (2.92) |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 11 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**as of 30 September 2015**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | *Notes* |  *30 September 2015* |  | *31 December 2014* |
| **ASSETS** |  |  |  |  |
| **Non-current assets** |  |  |  |  |
| Property, plant and equipment | *7* |  1,245,367 |  |  1,486,681  |
| Land lease rights |  |  49,517 |  |  27,236  |
| Deferred tax assets |  |  181 |  |  247  |
| Non-current biological assets |  |  27,120 |  |  30,313  |
| Long-term bank deposits |  |  4,230 |  |  4,848  |
| Other non-current assets |  |  10,948 |  |  12,344  |
|  |  |  1,337,363 |  |  1,561,669  |
| **Current assets** |  |  |  |  |
| Inventories |  |  201,976 |  |  203,248  |
| Biological assets | *8* |  212,543 |  |  133,254  |
| Agricultural produce |  |  142,894 |  |  159,655  |
| Other current assets, net |  |  31,220 |  |  29,974  |
| Taxes recoverable and prepaid, net |  |  69,765 |  |  46,441  |
| Trade accounts receivable, net |  |  41,916 |  |  59,619  |
| Cash and cash equivalents |  |  106,893 |  |  99,628  |
|  |  |  807,207 |  |  731,819  |
| **TOTAL ASSETS** |  |  2,144,570 |  |  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 |  |  760,406 |  |  684,184  |
| Retained earnings |  |  423,695 |  |  509,859  |
| Translation reserve |  | (902,703) |  |  (710,372)  |
| **Equity attributable to equity holders of the Parent** |  |  680,144 |  |  882,417  |
| Non-controlling interests |  |  66,673 |  |  63,105  |
| **Total equity** |  |  746,817 |  |  945,522  |
|  |  |  |  |  |
| **Non-current liabilities** |  |  |  |  |
| Bank borrowings | *9* |  269,053 |  |  152,302  |
| Bonds issued | *10* |  727,506 |  |  724,522  |
| Finance lease obligations |  |  13,281 |  |  22,206  |
| Deferred tax liabilities |  |  13,347 |  |  20,671  |
|  |  |  1,023,187 |  |  919,701  |
| **Current liabilities** |  |  |  |  |
| Trade accounts payable |  |  96,290 |  |  42,821  |
| Other current liabilities |  |  42,676 |  |  47,428  |
| Bank borrowings | *9* |  187,323 |  |  81,330  |
| Bonds issued | *10* |  - |  |  218,555  |
| Accrued interest |  |  32,579 |  |  21,738  |
| Finance lease obligations |  |  15,698 |  |  16,393  |
|  |  |  374,566 |  |  428,265  |
| **TOTAL LIABILITIES** |  |  1,397,753 |  |  1,347,966  |
| **TOTAL EQUITY AND LIABILITIES** |  |  2,144,570 |  |  2,293,488  |
|  |  |  |  |  |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 11 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the nine-month period ended 30 September 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 |  - |  |  - |  |  - |  |  - |  | (45,902) |  |  - |  | (45,902) |  |  8,912 |  | (36,990) |
| Other comprehensive income/(loss) |  - |  |  - |  |  - |  |  85,960 |  |  - |  | (195,597) |  | (109,637) |  | (3,934) |  | (113,571) |
| Total comprehensive income/(loss) for the period |  - |  |  - |  |  - |  |  85,960 |  | (45,902) |  | (195,597) |  | (155,539) |  |  4,978 |  | (150,561) |
| Dividends declared by the Parent *(Note 15 )* | - |  | - |  | - |  | - |  | (50,000) |  | - |  | (50,000) |  |  - |  | (50,000) |
| Dividends declared by subsidiaries | - |  | - |  | - |  | - |  | - |  | - |  | - |  | (408) |  | (408) |
| Acquisition and changes in subsidiaries *(Note 3)*  | - |  | - |  | - |  |  (9,738) |  |  9,738 |  |  3,266 |  |  3,266 |  | (1,002) |  |  2,264 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of 30 September 2015** |  284,505 |  | (67,741) |  |  181,982 |  |  760,406 |  |  423,695 |  | (902,703) |  |  680,144 |  |  66,673 |  |  746,817 |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 11 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the nine-month period ended 30 September 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 |  - |  |  - |  |  - |  |  - |  | (308,753) |  |  - |  | (308,753) |  |  6,714 |  | (302,039) |
| Other comprehensive income/(loss) |  - |  |  - |  |  - |  |  90,045 |  |  - |  |  (388,582) |  | (298,537) |  |  (9,204) |  | (307,741) |
| Total comprehensive income/(loss) for the period |  - |  |  - |  |  - |  |  90,045 |  | (308,753) |  | (388,582) |  | (607,290) |  | (2,490) |  | (609,780) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Dividends declared by the Parent  |  - |  |  - |  |  - |  |  - |  | (80,000) |  |  - |  | (80,000) |  |  - |  | (80,000) |
| Dividends declared by subsidiaries |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  | (505) |  | (505) |
| Non-controlling interests acquired  |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  |  - |  |  148 |  |  148 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance as of 30 September 2014** |  284,505 |  | (65,393) |  |  181,982 |  |  112,914 |  |  624,073 |  | (629,831) |  |  508,250 |  |  50,818 |  |  559,068 |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 11 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

**for the nine-month period ended 30 September 2015**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | *Notes* | *Nine-month period ended 30 September 2015* |  | *Nine-month period ended 30 September 2014* |
| **Operating activities** |  |  |  |  |
|  |  |  |  |  |
| Loss before tax |  |  (58,230) |  | (314,257) |
| Non-cash adjustments to reconcile profit before tax to net cash flows |  |  |  |  |
| Depreciation and amortization expense | *4* |  71,630  |  |  71,319 |
| Net change in fair value of biological assets and agricultural produce | *4, 5* |  (53,791) |  | (81,304) |
| Change in allowance for irrecoverable amounts and direct write-offs |  |  (1,197) |  |  17,585 |
| Loss on Shahtarska Nova breeding farm, net |  |  - |  | 49,008 |
| Gain on disposal of property, plant and equipment and other non-current assets |  |  (139) |  | (62) |
| Finance income |  |  (2,199) |  | (3,043) |
| Finance costs |  |  79,407  |  |  83,480 |
| Unrealised foreign exchange loss, net | *14* |  289,210  |  |  560,610 |
| Loss on disposal of subsidiaries | *3* |  4,725  |  | - |
| Other non-cash adjustments to reconcile profit before tax to net cash flows |  |  - |  |  338 |
| **Operating cash flows before movements in working capital** |  |  329,416 |  | 383,674 |
|  |  |  |  |  |
| *Working capital adjustments* |  |  |  |  |
| Change in inventories |  |  (54,286) |  | (21,988) |
| Change in biological assets | *8* |  (74,938) |  | (84,930) |
| Change in agricultural produce |  |  (5,656) |  | (7,081) |
| Change in other current assets |  |  (9,512) |  | (1,735) |
| Change in taxes recoverable and prepaid |  |  (36,784) |  |  68,122 |
| Change in trade accounts receivable |  |  8,318  |  | (10,296) |
| Change in other liabilities |  |  6,903  |  |  9,780 |
| Change in trade accounts payable |  |  66,447  |  | (14,759) |
| **Cash generated by operations** |  |  229,908 |  |  320,787 |
|  |  |  |  |  |
| Interest received |  |  2,146 |  |  2,904 |
| Interest paid |  | (65,462) |  | (55,135) |
| Income taxes paid |  | (796) |  | (6,426) |
| **Net cash flows from operating activities** |  |  165,796 |  |  262,130 |
|  |  |  |  |  |
| **Investing activities** |  |  |  |  |
| Purchases of property, plant and equipment | *7* | (93,628) |  | (87,979) |
| Purchases of other non-current assets |  | (1,776) |  | (6,371) |
| Purchase of land lease rights |  | (7,574) |  | (4,030) |
| Purchase of subsidiaries | *3* | (2,190) |  | - |
| Proceeds from disposals of property, plant and equipment |  |  561 |  |  460 |
| Purchases of non-current biological assets |  | (781) |  | (285) |
| Withdrawals of short-term deposits |  |  252 |  |  354 |
| Loans repaid by/(provided to) employees |  | (436) |  | (6) |
| Loans repaid by/(provided to) related parties, net |  | (69) |  | (2,462) |
| **Net cash flows used in investing activities** |  | (105,641) |  | (100,319) |
|  |  |  |  |  |
| **Financing activities** |  |  |  |  |
| Proceeds from bank borrowings |  |  444,762 |  |  40,895  |
| Repayment of bank borrowings |  | (201,216) |  | (87,535) |
| Repayment of bonds |  | (219,567) |  |  - |
| Repayment of finance lease obligations |  | (13,297) |  | (15,692) |
| Dividends paid |  | (49,996) |  | (96,172) |
| Dividends paid by subsidiary to non-controlling shareholders |  | (408) |  | (715) |
| **Net cash flows from financing activities** |  | (39,722) |  | (159,219) |
|  |  |  |  |  |
| Net increase in cash and cash equivalents |  |  20,433 |  |  2,592 |
| Net foreign exchange difference |  | (13,168) |  | (23,944) |
| Cash and cash equivalents at 1 January |  |  99,628 |  |  172,470 |
| **Cash and cash equivalents at 30 September** |  |  106,893 |  |  151,118 |

*The accompanying notes on the pages 11 to 21 form an integral part of these interim condensed consolidated financial statements*

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(continued)*

**for the nine-month period ended 30 September 2015**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Non-cash transactions** |  |  |  |  |
| Effect of revaluation of property, plant and equipment |  |  104,900  |  | 108,170 |
| Additions of property, plant and equipment financed through direct bank-lender payments to the vendor |  |  -  |  |  1,459 |
| Additions of property, plant and equipment under finance leases |  |  2,808 |  |  75 |
| Property, plant and equipment purchased for credit |  |  5,192  |  |  1,537 |

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

*The accompanying notes on the pages 11 to 21 form an integral part of these interim condensed consolidated financial statements*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**for the nine-month period ended 30 September 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 nine-month period ended 30 September 2015 the Group employed about 31,560 people (31 December 2014: 30,700 people).

During 2015 the Group has completed construction of new production facilities at Peremoga Nova chicken farm. The project was aimed to cover the shortage of internal production of hatchery eggs due to suspension of production at Shahtarska Nova farm. As of the reporting date, the construction has been ongoing, with first hatchery egg produced 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 September 2015 and 31 December 2014 were as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Name* | *Country of registration* | *Year established/**Acquired* | *Principal activities* | *30 September 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% |

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.

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the nine-month period ended 30 September 2015**

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

1. Basis of preparation and accounting policies

***Basis of preparation***

The interim condensed consolidated financial statements for the nine-month period ended
30 September 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 nine-month period ended 30 September 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 September 2015* | *Average for nine- months ended 30 September 2015* | *Closing rate as of 31 December 2014* | *Average for nine- months ended 30 September 2014* | *Closing rate as of 31 December 2013* |
| UAH/USD |  21.5275 |  21.4852 |  15.7686 | 11.0589 | 7.9930 |
| UAH/EUR |  24.1195 |  23.9322 |  19.2329 | 14.9711 | 11.0415 |
| UAH/RUB |  0.3250 |  0.3665 |  0.3030 | 0.3121 | 0.2450 |

Notes to the Consolidated financial statements

**for the nine-month period ended 30 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 2015:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | *Poultry* *and related operations* | *Grain growing* | *Other agricultural operations* | *Eliminations* | *Consolidated* |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| External sales |  715,376  |  102,363  |  80,224  |  |  897,963  |
| Sales between business segments |  19,988  |  67,393  |  929  |  (88,310) |  -  |
| **Total revenue** |  735,364  |  169,756  |  81,153  |  (88,310) |  897,963  |
| **Segment results** |  236,678  |  76,915  |  8,821  |  -  |  322,414  |
| Unallocated corporate expenses |  |  |  |  |  (7,600) |
| Other expenses, net*1)* |  |  |  |  |  (373,044) |
| **Loss before tax** |  |  |  |  |  (58,230) |
| **Other information:** |  |  |  |  |  |
| Depreciation and amortization expense*2)* |  49,691  |  17,064  |  4,270  |  -  |  71,025  |
|  |  |  |  |  |  |
| Net change in fair value of biological assets and agricultural produce (Note 5) |  21,668  |  31,805  |  318  |  -  |  53,791  |

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

***2)*** Depreciation and amortization for the nine-month period ended 30 September 2015 does not include unallocated depreciation and amortization in the amount of USD 605 thousand.

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | *Poultry* *and related operations* | *Grain growing* | *Other agricultural operations* | *Eliminations* | *Consolidated* |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| External sales |  888,889 |  47,730 |  97,153 |  - |  1,033,772 |
| Sales between business segments |  21,599 |  104,490 |  326 | (126,415) |  - |
| **Total revenue** |  910,488 |  152,220 |  97,479 | (126,415) |  1,033,772 |
| **Segment results** |  325,243 |  78,244 |  8,233 |  - |  411,720 |
| Unallocated corporate expenses*1)* |  |  |  |  | (79,337) |
| Other expenses, net*2)* |  |  |  |  | (646,640) |
| **Loss before tax** |  |  |  |  | (314,257) |
| **Other information:** |  |  |  |  |  |
| Depreciation and amortization expense*3)* |  58,550 |  6,744 |  4,435 |  - |  69,729 |
|  |  |  |  |  |  |
| Net change in fair value of biological assets and agricultural produce |  30,519 |  49,541 |  1,244 |  - |  81,304 |
|  |  |  |  |  |  |

***1)*** Includes loss on impairment of assets in Donetsk region in amount of USD 48,823 thousand.

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

***3)*** Depreciation and amortization for the nine-month period ended 30 September 2014 does not include unallocated depreciation and amortization in the amount of USD 1,590 thousand.

Notes to the Consolidated financial statements

**for the nine-month period ended 30 September 2015**

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

1. Loss for the period

The Group’s net loss for the nine-month period ended 30 September 2015 amounted to USD 36,990 thousand, mainly related to unrealized foreign exchange loss in amount of USD 289,210 mostly attributable to bonds and borrowings denominated in foreign currencies due to UAH depreciation against USD and EUR.

Gross profit decreased by 23%, mainly as a result of UAH devaluation against USD effect, which despite increase in UAH denominated sales prices have decreased in USD equivalent and consequently has led to decrease in revenues, partly offset by positive effect on costs (its USD equivalent), and amounted to USD 319,327 thousand for the nine-month period ended 30 September 2015 compared to USD 417,036 thousand for the nine-month period ended 30 September 2014.

Operating profit decreased by 17% to USD 314,814 thousand for the nine-month period ended
30 September 2015 compared to USD 381,391 thousand for the nine-month period ended
30 September 2014. Since operating costs are majorly fixed in UAH and remained relatively flat, its USD equivalent has decreased due to UAH depreciation against USD, resulting in significantly lower operating expenses.

1. Income tax benefit

The Group has recognised income tax benefit in the amount of USD 21,240 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 nine-months period ended 30 September 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 nine-month period ended 30 September 2015, the Group’s additions to property, plant and equipment amounted to USD 101,628 thousand (nine-month period ended 30 September 2014:
USD 98,966 thousand).

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

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 nine-month period ended 30 September 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 September 2015 and 31 December 2014:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | *30 September 2015* |  | *31 December 2014* |  |
| *Bank* |  | *Currency* |  | *WAIR* ***1)*** | *USD’ 000* |  | *WAIR* ***1)*** | *USD’ 000* |  |
|  |  |  |  |  |  |  |  |  |  |
| **Non-current** |  |  |  |  |  |  |  |  |  |
| Foreign banks |  | USD |  | 8,13% | 217,897 |  | 5.83% |  71,535  |  |
| Foreign banks |  | EUR |  | 1.53% | 51,156 |  | 1.72% |  80,767  |  |
|  |  |  |  |  | 269,053 |  |  |  152,302  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Current** |  |  |  |  |  |  |  |  |  |
| Ukrainian banks | USD |  | 6.58% | 61,163 |  | - | - |  |
| Foreign banks | USD |  | 6.37% | 32,000 |  | 5.98% | 10,000  |  |
| Ukrainian banks | UAH |  | - | - |  | 14.25% | 6,976 |  |
|  |  |  |  |  |  |  |  |  |  |
| Current portion of long-term bank borrowings |  |  |  |  | 94,160 |  |  |  64,354  |  |
|  |  |  | 187,323 |  |  | 81,330 |  |
|  |  |  |  |  |  |  |  |
| **Total bank borrowings** |  |  | 456,376 |  |  | 233,632 |  |

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

As of 30 September 2015 and 31 December 2014 accrued interest on bank borrowings were
USD 2,101 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 September 2015 and 31 December 2014 bear the floating interest rates.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *30 September 2015* |  | *31 December 2014* |
|  |  |  |  |
| Within one year | 187,323 |  |  81,330  |
| In the second year | 107,989 |  |  64,243  |
| In the third to fifth year inclusive |  160,272  |  |  84,598  |
| After five years |  792  |  |  3,461  |
|  | 456,376 |  |  233,632  |

As of 30 September 2015, the Group had available undrawn facilities of USD 127,522 thousand
(31 December 2014: USD 421,892 thousand). These undrawn facilities expire during the period from October 2015 until December 2024.

As of 30 September 2015, the Group had borrowings of USD 32,000 thousand (31 December 2014:
USD 10,000 thousand) that were secured. These borrowings were secured by inventories with a carrying amount of USD 40,000 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 nine-month period ended 30 September 2015**

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

1. Bonds issued

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *30 September 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 |  (22,494) |  |  (27,250)  |
|  |  727,506  |  |  943,077  |
| *Less:* |  |  |  |
| Current portion of bonds issued |  - |  |  (218,555)  |
| Total long-term portion of bonds issued |  727,506 |  |  724,522  |

As of 30 September 2015 and 31 December 2014 amount of accrued interest on bonds issued was
USD 30,478 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 nine-month period ended 30 September 2015**

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

10. 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 September 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 9.61% per annum and 9.92% per annum for the nine-months ended 30 September 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 nine-month periods ended 30 September 2015 and 2014 were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | *2015* |  | *2014* |
|  |  |  |  |
| Sales of goods to related parties |  210 |  | 198  |
| Sales of services to related parties |  - |  | 15  |
| Purchases from related parties |  40 |  | 9  |

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *30 September 2015* |  | *31 December 2014* |
|  |  |  |  |
| Trade accounts receivable  |  178 |  | 213 |
| Payables due to related parties |  23 |  | 5 |
| Advances and finance aid  |  1,366 |  | 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 6,019 thousand and USD 7,097 thousand for the nine-month periods ended 30 September 2015 and 2014, respectively.

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the nine-month period ended 30 September 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 2010the 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 September 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 September 2015 amounted to USD 11,146 thousand (31 December 2014: USD 21,969 thousand). Out of this amount, USD 8,429 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 2,717 thousand as of 30 September 2015 (31 December 2014: USD 2,919 thousand).

Notes to the INTERIM CONDENSED Consolidated financial statements

**for the nine-month period ended 30 September 2015**

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

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

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

During the nine-month period ended 30 September 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 September 2015, purchase commitments on such contracts were primarily related to construction of new facilities at poultry rearing farms and amounted to USD 18,369 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 September 2015* | *31 December 2014* |  | *30 September 2015* | *31 December 2014* |
|  |  |  |  |  |  |
| ***Financial liabilities*** |  |  |  |  |  |
|  |  |  |  |  |  |
| Bank borrowings *(Note 9)* |  458,477  |  236,550  |  | 441,760 |  233,419  |
| Senior Notes due in 2015 *(Note10)* |  -  |  222,250  |  |  -  |  222,442  |
| Senior Notes due in 2020 *(Note 10)* |  757,984  |  739,647  |  | 642,188 |  503,625  |
| Finance lease obligations  |  28,979  |  38,599  |  | 26,952 |  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: 7.2% (2014: 6.0%) and for finance lease obligations of 7.4% (2014: 7.5%).

1. Risk management policy

During the nine-month period ended 30 September 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 nine-month period ended 30 September 2015**

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

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | *30 September 2015* |  | *31 December 2014* |
|  | *USD* | *EUR* |  | *USD* | *EUR* |
|  |  |  |  |  |  |
| Total assets |  77,250 |  9,318 |  | 110,988 | 5,613 |
| Total liabilities |  (1,180,080)  |  (98,657)  |  | (1,103,984) | (133,719) |
| Net position |  (1,102,830) |  (89,339) |  |  (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)*  |
| *nine-month period ended 30 September 2015* |  |  |  |
|  |  |  |  |
| Increase in USD exchange rate  | 10% |  | (110,283) |
| Increase in EUR exchange rate | 10% |  | (8,934) |
|  |  |  |  |
| Decrease in USD exchange rate  | 5% |  |  55,142 |
| Decrease in EUR exchange rate | 5% |  |  4,467 |
|  |  |  |  |
| *nine-month period ended 30 September 2014* |  |  |  |
|  |  |  |  |
| Increase in USD exchange rate  | 10% |  | (104,362) |
| Increase in EUR exchange rate | 10% |  | (14,046) |
|  |  |  |
| Decrease in USD exchange rate  | 5% |  | 52,181 |
| Decrease in EUR exchange rate | 5% |  | 7,023 |
|  |  |  |  |

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 nine-month period ended 30 September 2015, EUR and USD has appreciated against the Ukrainian Hryvnia by 25.4% and 36.5%, respectively (nine-month period ended 30 September 2014: EUR and USD appreciated by 49.0% and 62.0% relative to UAH, respectively). As a result, during the nine-month period ended 30 September 2015 the Group recognised net foreign exchange loss in the amount of 289,210 USD thousand (nine-month period ended 30 September 2014: foreign exchange loss in the amount of USD 560,610 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 18 November 2015.

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