



## MHP INVESTS IN LOCAL COMMUNITIES (PLACE: VINNYTSIA REGION, LADYZHYN)

### About the Company

“Myronivsky Hliboproduct” is a vertically-integrated enterprise, the leading poultry producer and one of the largest landowners in the Ukraine. The main operations:

- Poultry and related produce (chilled chicken products, pre-cooked convenience food and sunflower oil);
- Grain-growing operations (corn, sunflower, wheat and rape);
- Other agricultural operations (production of premium class fresh beef, foie gras, sausages and smoked sausages, fruits).

According to the company’s preliminary results for the first part of 2012 MHP shares 50% of the Ukraine’s industrial poultry market. Every year the company produces approximately 380,000 tonnes of poultry meat.

It is expected that at the beginning of 2013 MHP will launch into operation the first line (110,000 tonnes per year) of Vinnytsia poultry farm’s first phase (Ladyzhyn). Now the poultry farm is in the process of building. In 2014 it is planned to launch into operation the second line (110,000 tonnes more per year). In all the project is aiming at 4 lines (2 lines, each with 220,000 tonnes), that involves a total capacity of 440 tonnes of chicken per year.

MHP’s poultry farms are provided with fodder from its own fodder production facilities and grain growing enterprises. The total land bank amounts up to 280,000 hectares. According to the results in 2011, MHP yields are almost double the average yields in the Ukraine.

MHP’s products are well known under such brands as “Nasha Riaba” (chilled chicken), “Lehko!” (frozen convenience meat), “Druzhba Narodiv”, “Baschinsky”, “Evroproduct” (sausages and smoked sausages), “Certified Angus” (deli-chilled beef), “Foie Gras” (chilled and frozen goose and foie gras).

Yuriy Kosiuk owns about 66% of MHP shares, the rest are floated on the London Stock Exchange.

### Challenges

In May 2010 construction work commenced on the Vinnytsia project. The project includes a broiler production complex, breeder farm, hatchery and fodder complex along with an oil press plant, slaughterhouse, disposal plant and other infrastructure. Since construction work started the Company has faced a number of issues concerning the local community’s perception of the new investor. There were also problems with the current social and economic development of the Trostianets and Tulchyn regions. Namely:

1. *Local concern about the increased use of roads by large-sized construction machinery.* The roads were in a poor condition prior to the start of the project but the local citizens have blamed current road conditions exclusively on the Company’s activity and movement of vehicles needed in the construction of the Complex.
2. *Concern about the new enterprise’s employees coming to Ladyzhyn,* particularly the additional accommodation required and the impact this will have on existing accommodation prices.
3. *Uncertainty about the commitment of this new investor,* many others have started and failed before:
  - concern that the investor is fully committed and will confirm definite start and completion dates;
  - uncertain that 8-9 thousand new jobs will be created;
  - unsure of the appropriate salary level; and
  - cynical that full time employment will be created by a new enterprise located in the Chernobyl zone.

4. *Insufficient information about the full scope of the enterprise’s activity,* because of limited local media channels, causing bias against the enterprise from the local population.

5. *Local communities are concerned about the environmental impact of the new enterprise on the region:*

- disposal of industrial waste close to a populated area and the effect of such disposal; and
- potential problems with the water supply due to use of local water by the enterprise and water pollution by industrial waste.

6. Social and cultural regional issues: undeveloped educational and sport establishments; lack of cultural events; and low logistics in educational institutions.

7. The outflow of the local population (mostly its employable part) to regional centres, big cities and also abroad resulting in labour shortages in the region. Monopolisation of the labour market: the only major enterprise in Ladyzhyn (thermal power station) limits the choice of work place to potential staff (either a job at Ladyzhyn thermal power station, where there is fierce competition for jobs, or find employment outside of the region, or even country).

8. Lack or absence of skilled labour in this area that the enterprise needs.

## Solutions

**To address these challenges MHP implemented the following measures to intensify and improve interaction with the public and local residents:**

1. *Construction of roads.* A new road, of over 10 km, was built near Ladyzhyn, connecting the fodder production plant with the poultry farm. Many existing roads have been repaired and other new roads built in the area; the new concrete road to the village of Lukashivka being particularly significant. Nearly 8 km of new railway has been laid to transport produce to and from the fodder production complex. The increase in traffic through “Ladyzhyn” railway station has raised its status which has led to salary increases for many staff. Overall, the extended transport network has significantly reduced the weight of traffic through the villages.

2. *Construction of residential buildings.* Two residential buildings, containing 45 and 28 apartments respectively, have been constructed with 39 apartments already homing 17 families. The new 9-floor residential building in the centre of Ladyzhyn is due for completion by the end of 2012 and will offer accommodation for a further 180 staff and their families, as well as local residents in need of accommodation. In addition to this the Company has investment plans for construction of a dormitory that will provide accommodation for a further 800 future employees of the Vinnytsia complex. The Company uses innovative construction technologies, like the static cave-driving method, that excludes excessive noise and destructive effects on the surrounding buildings.

3. *Excursions to the Company enterprises.* In 2011 the special programme for students of 9-11 grades and local colleges was developed. Within the framework of the programme “The way to the profession” pupils of graduate classes from local schools visited the MHP production facilities and about 60 children have already visited the operating MHP business. Also, from early summer to mid-autumn 2012 all interested citizens of the surrounding towns and villages had the opportunity to visit the Vinnytsia poultry farm. Totally 5,695 people have visited the enterprise for the period from 06/19/2012 to 10/17/2012.

During the tour, production specialists and representatives of the Company’s HR department were available to visitors. They provided data on average wages at the enterprise. They were also able to assure those on the excursions that as the poultry farm is located outside of Ladyzhyn it falls outside of the Chernobyl zone.

4. Providing the local population with safe drinking water. Previously, the villagers that live near the MHP poultry farm were forced to use water taken directly from the Southern Bug river. MHP have provided the village with the same water supply and purification system they constructed to supply its poultry farm. The purification system also ensures that the quality of water the enterprise drops into the river after use is significantly higher than the water currently in the river.

5. Distribution to cultural and sport education of children. The children’s equestrian sports school was initiated, also the participants of sporting competitions were provided with financial support; the library fund in each school of Ladyzhyn was significantly supplemented by sets of Ukrainian and foreign educational and art literature; and childrens’ contests and festivals are regularly held. On 8 March 2012 a charity fair of postcards created by the Ladyzhyn pupils was organised. The Company donated the funds raised following a charity request.

6. *Communications with local communities, Mass Media and others.* At the end of 2011 MHP’s account in social network “Vkontakte”(730 friends now); a radio series, regular conferences and other public events involving managers and top management of the Company were held; local journalists. The concept and layout of the corporate edition “Vinnytska ptahofabryka” is already developed. Immediately after the enterprise is operational, it will be distributed not only within its boundaries, but also beyond with the purpose of informing residents of both districts, including Ladyzhyn about MHP activities in the region and poultry farm news.

7. The Company co-operates with research institutions: it takes part in studies of the grains and oilseeds grown in the fields of the grain growing enterprises in the Vinnytsia region. It also participates in developing new processes to further improve yield not only in the Company but also in other enterprises in the region. This promotes agricultural efficiency and increases crop capacity indicators in the region; and

8. MHP maintains contacts with local non-governmental organizations responsible for the environmental condition of the region. It responds to requests on the impact of its activities on the environment in the region, it also retains documents confirming the construction of the complex is according to environmental regulations.

**As stated in the annual results, the Company will conduct a social survey on the issue of how local people and communities perceive its activities and how much they are informed about its future plans**

**9. Development and encouragement of the staff:**

- 70-80% of the staff at the Vinnytsia poultry farm will comprise of residents of the region;
- the top management of the Company presented in regional universities;
- nowadays the Company's employees visit agricultural universities presenting the Company and the incentive programmes operating in the MHP to the students; and

10. Young specialists who will work at Vinnytsia poultry farm study and train at other MHP enterprises where they acquire the professional experience and skills required for their further development. For instance, last year Myronivska poultry farm prepared a work team of 15 leading experts for Vinnytsia poultry farm; 6 young specialists prepared by qualified mentors of Myronivsky meat processing plant "Legko" were directed to internship at Myronivska poultry farm in order to further employment in Vinnytsia poultry farm; 3 leading experts from Myronivsky Plant for Manufacturing Groats and Feeds went to Vinnytsia Poultry Farm Branch Complex for Manufacturing Feeds in Ladyzhyn.

*The investor's arrival in the region provided new work places, official employment and an opportunity for young specialists to develop, which reduced the likelihood of the outflow of the labour force from the region and the country as a whole.*

The Company contributes to the development of both the region and the country. By its activity in the region MHP enhances its profitability, promotes the labour market and the development of small and medium businesses.

**Most importantly, MHP's presence in the region leads to sustainable improvement of living standards; level of social security; and improvement and efficiency of communication between people and the industrial sector. It also guarantees further effective, long-term and sustainable development together with the Company that having achieved the leading position in the Ukraine is expanding its activities abroad.**