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Operation no.: 2012-0184

PROJECT COMPLETION REPORT

MHP AGRI-FOOD

UKRAINE

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The financing for this project benefits from an EU guarantee to the Bank under DECISION No 466/2014/EU of the European Parliament and of the Council. Pursuant to Article 9 (2) of this Decision, the Bank "shall require the project promoters to carry out thorough monitoring during project implementation until completion, inter alia, on the economic, development, social, environmental and human rights impact of the investment project. The EIB shall verify on a regular basis the information provided by the project promoters and make it publicly available if the project promoter agrees. Where possible, project completion reports related to EIB financing operations shall be published excluding confidential information."

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Scope

a. Project Description

The project involved the construction and operation of an integrated chicken fodder production complex with an annual output capacity of 1,300,000 t/year. The project integrated oil seed crushing and grain and sunflower storage with the fodder production. The total capacity of the new grain elevators is 400,000 m³. The new sunflower crushing plant has an output capacity of 500,000 tonnes per annum (tpa) of sunflower seeds, producing oil rich sunflower cake and degummed crude sunflower oil. All these investments are located in a 52 ha site next to the village of Ladyzhyn in Vinnytsia, western Ukraine.

b. Implementation and Operation

The project has been implemented and commissioned as foreseen at appraisal. Since December, 2015 the plant is operated as planned.

c. Promoter-Link to Website (Promoter)

Myronivsky Hliboproduct's website: <http://www.mhp.com.ua/en/home>

Cost and Schedule

a. Investment Cost at Appraisal and Completion

In 2012, the total project investment cost was estimated at appraisal at EUR 129.2 m (USD 157.7 m), excluding contingencies, interest during construction and permanent working capital. If these items had been included, the investment cost would have been estimated at EUR 172 m (USD 209.8 m)¹.

The promoter reports the realized investment cost of UAH 1,442,847,000 at completion and notes that there were no deviations from the budgeted project cost. At the time of project appraisal and implementation in 2012, EUR 1 corresponded to UAH 11. At this currency exchange rate, the realised total investment cost corresponds to EUR 131,167,909 (USD 180,355,875).

b. Initial and final Start / End of Works dates

The project implementation had already started at the time of appraisal in June 2012. The project implementation was completed and the project components have been commissioned as follows:

Project component:	Date of commissioning:
- Fodder production plant	October 2012
- Sunflower crushing plant	Commissioning beginning from 2012 July, loading line was commissioned in December 2015
- Oil- and grain-elevators with storage	September 2011

Performance

a. Market aspects

Ukraine is a large exporter of agricultural commodities, such as grains and oilseeds. Therefore, the domestic prices for these commodities in hard currencies are co-integrated with international prices with negative basis, as noted in the project due diligence. The negative basis implies that the local commodity prices are below the international price quotations due to transactions costs in exports (e.g. transport costs).

The international agricultural commodity prices increased in 2013, but thereafter they have declined with significant short term volatility. In terms of local currency (UAH) the prices have nevertheless increased, due to devaluation of the local currency against US dollar and Euro.

¹ The currency exchange rates of 2012 have been applied: EUR 1 = UAH 11, USD 1 = UAH 8.

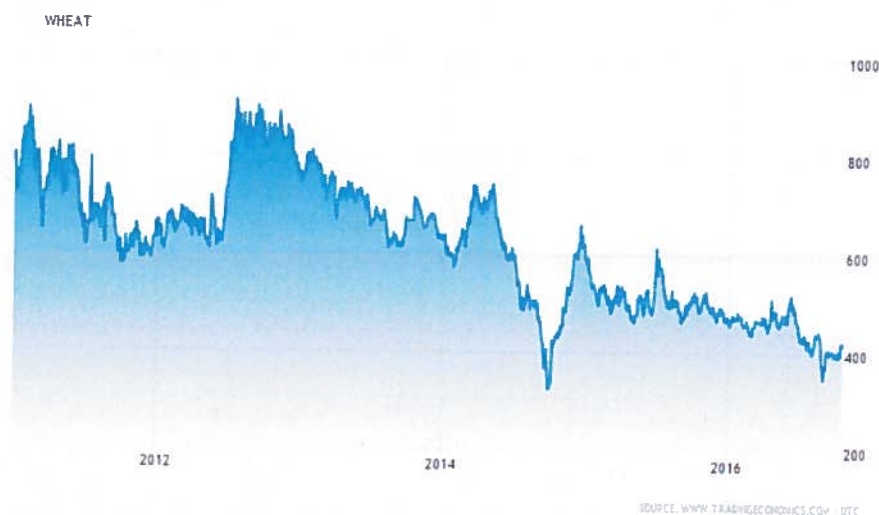


Figure 1: Example of international price development: futures price for wheat USD/Bushel.

b. Financial and Economic aspects

The project has been performing satisfactorily in financial and economic terms.

c. Risks and Mitigants

- Institutional instability: Social and economic development of Ukraine are circumvented by institutional uncertainty and instability. For a private company, the means of mitigating the prevailing institutional instability of the country are limited. This continues to expose the project to high risks.

- Land tenure rights: Ukraine is ongoing a transformation from the collective arable land ownership and *Kolkhoz*-type land management structures towards private land tenure and ownership rights. The government still owns all arable land and is also a large land tenure right holder, even if most of the land tenure rights have been allocated to small land holders (e.g. to people and families who used to work for the old *Kolkhozes*).

Land tenure rights are tradable so that an initial land tenure holder can lease the land to a third party. This land leasing activity is regulated by the government e.g. through minimum rental rates per ha of land. Large corporates are using land banks and land swaps to allocate accessible land parcels to those small holders who like to change the contractual arrangement or manage their land personally.

The current situation in land tenure rights and the terms of trade concerning these rights (as well as the options for land reforms that are currently discussed) have the potential to induce social issues in the country.

The Bank will continue to follow the land tenure rights policy discussions in the country and monitor any social implications for the promoter and the project.

- Commodity market: The project is exposed to high uncertainty and volatility of agricultural commodity markets. The promoter has been mitigating the market uncertainty and price risks through efficient vertically integrated production and marketing systems that are competitive in the international market context. The promoter has the capacity to trade internationally and hedge its cash position in hard currencies.

Other Environmental and social risks and mitigants are covered in the ESCS.

EIB Involvement

EIB involvement in the project has been implemented along the project's due diligence process.

The Bank has been supporting the use of the Best Available Technologies (BAT) with emissions controls in operating the factories. The Bank's services have contributed to developing the means and standards for monitoring and reporting the project's emissions in operation.

The Bank's services carried out a monitoring mission to meet the promoter on 27th March-1st April 2017.

ESCS

The Environmental and Social Completion Sheet (ESCS) has been published separately.

Promoter's Optional Final Comment

Financial support from EIB allowed MHP ("Company") to complete the project in timely manner as well as strict environmental and social standards promoted by EIB encouraged the Company to improve internal policies and controls to ensure further sustainable growth.

Since inception of cooperation with the bank the Company explored and implemented the most energy and resources efficient technologies throughout its production facilities. Furthermore the Company observed positive impact of cooperation on capital markets pushing credit margins down.