AVANGARDCO

PAVING THE WAY FOR RECOVERY

ANNUAL REPORT 2016

CONTENTS

Avis Poultry Complex

Avangardco IPL is the largest producer of shell eggs and dry egg products in Ukraine and Europe. Relations with investors, analysts, creditors, distributors, suppliers, customers, consumers, government agencies and other institutions play a vital role in the company's eco-system.

Avangardco IPL consistently adheres to high standards of product quality and biosecurity.

Despite the political and economic challenges faced by Ukrainian businesses in 2016, Avangardco IPL retained its leading positions in the domestic and international markets increasing the share of sales through high-margin channels (exports and retail chains), whilst further diversifying the geography of exports and attaining international quality certification for its products.

First Signs of Recovery Give Rise to Cautious Optimism for Ukraine's Economy Going Forward

2016 became another difficult year for Ukraine's economy, in many critical respects probably the most difficult year economically since the military conflict and annexation of Crimea by Russia sent Ukraine's economy into a nosedive. But there's a glimmer of hope this time around.

While consumer demand in general and particularly demand for eggs continued to contract under pressure from the consequences of continued economic recession throughout 2016, macroeconomic fundamentals started showing cautious signs of improving:

- GDP was growing in each of the four consecutive quarters of 2016 producing a positive annual GDP growth of 2.3% YOY against a 9.8% YOY GDP contraction the year before;
- Inflation decelerated to 13.9% YOY and while it is still high and mostly fuelled by increasing utility prices and a weaker local currency, it's only a third of its 2015 level of 48.7% YOY;
- Local currency depreciation also slowed down substantially and while it failed to break out of double-digit territory closing at 17% YOY[1] for the year it was a major improvement compared to the 2015 level of 83% YOY[2];
- Macroeconomic revival is certainly very welcome news but it will only make a difference to the company's sales or bottom line when it translates into increased household income that gets spent on company products. Household income indeed got back on a growth track in the second half of 2016 and even though this modest yet positive growth is mostly down to the low baseline effect it's very welcome news indeed;
- Retail trade also started to pick up during 2016 for the first time in three years recording a growth rate of 4% YOY.

Annual GDP Growth

+2.3% YOY

Inflation Decelerated

↓13.9% YOY

Retail Trade Started to Pick Up

+4% YOY

This is all excellent news of course but it's important to bear in mind that macroeconomic improvements do not translate into fresh and solvent demand for company products overnight.

[1,2] Calculated at weighted average rate for the period.

Government Doubles the Minimum Wage to Boost Consumer Demand

In December 2016, the Government of Ukraine approved a crucial decision to increase the minimum wage from UAH 1,600 (~ USD 60[1]) to UAH 3,200 (~ USD 120[2]) per month with effect from the 1st of January, 2017.

Minimum Wage Increase

↑UAH 3,200

In US dollar terms this may not seem like much but in relative terms we are talking about a twofold increase in the income of Ukraine's poorest families. This category has suffered a very severe loss of income from the ongoing economic recession cutting back on spending across the board. As a result, they've built up substantial deferred demand for goods and services, including basic foodstuffs, such as eggs. The increased minimum wage has a strong potential for converting the deferred demand into real solvent demand. Avangardco is determined to claim its fair share of this demand demand come 2017.

A New Government Programme to Support Agriculture Expected to Partially Offset VAT Subsidy Cutback

On December, 2016 the Parliament of Ukraine adopted a 5-year programme to provide support to domestic agricultural producers in the amount of 1% of the gross value of their output.

Subsidy for the Farming Industry in 2017

UAH 4bn

The programme, among other elements, features a subsidy of UAH 4bn for the farming industry in 2017.

The subsidy will be distributed automatically on a monthly basis in proportion to the amount of VAT paid within the allocated funds, whilst subsidy for poultry producers will be capped at 50% of its monthly amount.

This is very welcome news indeed especially in view of another decision by the Government to completely abolish the special VAT regime for agricultural producers in 2017. The new programme is expected to partially offset the negative impact from the latter decision on the company's bottom line.

Avangardco Retains Market Leadership Despite Unprecedented Demand Contraction and Increased Cost Inflation

Without exaggeration, 2016 has been the worst year for Ukraine's egg farming industry in the past three years. All the negative consequences of the ongoing recession finally manifested themselves in full taking a heavy toll on household income and home demand.

For the third consecutive year, egg consumption has been contracting in absolute terms. In 2016, total egg consumption decreased 8.6% YOY and that's on top of a 10.5% YOY decline the year before.

Importantly, it's not just that households keep winning over market share from industry. We are talking here about a net contraction in the consumption of eggs coming from all sources, which may suggest that low-income families increasingly abandon animal proteins from their diets. In favourable

[1,2] Calculated at UAH/USD exchange rate as at 31 December 2016.

economic circumstances, such a trend could indicate that consumers are upgrading from eggs to more expensive options, e.g. poultry, pork and beef. That, however, is not the case. In times of economic distress, this implies a net contraction in the consumption of animal proteins as a category.

Cost inflation also peaked in 2016 depleting producer bottom lines and forcing most of them into the red. During two consecutive quarters (Q2 and Q3) Avangardco was also selling at a loss. The company was forced to do so by unprecedented demand contraction coupled with an oversupply situation in the home market created by households and further aggravated by a decline in export volume occurring all at the same time.

Avangardco responded to this new challenge by increasing the share of sales made through established retail chains, processing a larger volume into egg powder and directing more sales down the export channel.

Shell Eggs Processed into Egg Powder

↑35% YOY

Share of Sales through Retail Chains in Total Egg Sales

↑60%

Share of Exports in Total Egg Sales

↑17%

This has helped the company retain its industry leadership, preserve its assets and start preparing for the revival of demand expected from resumed GDP growth, increased minimum wage and other positive developments of 2016 that have yet to produce a favourable impact on consumer demand.

Company's Share of Ukraine's Industrial Egg Production

31%

Company's Share of Ukraine's Egg and Egg Product Exports

65%

Company's Share of Ukraine's Production of Dry Egg Products

87%

Sales through Retail Chains Reach 60% of Sales Volume for the First Time

Throughout 2016, Avangardco continued to push ahead with its long-term strategy to increase the share of sales made in the domestic market through established retail chains.

In 2009, the company made a pivotal decision that would transform its sales profile and performance. Until that time Avangardco sold up to 80% of its shell egg output via the so-called wholesalers, small firms and sole traders acting as intermediaries whose business it is to buy eggs from the company and other industrial producers and resell them to end consumers. This sales channel is inherently unstable and unpredictable in every possible way. There are hundreds of those middlemen, they come and go, they often operate without assets of their own. And even though Avangardco has built and carefully maintained its own portfolio of trusted wholesalers, since 2009, the company has been pursuing a strategy aimed at reducing sales through middlemen while expanding trade through supermarket chains.

Retailers are just another type of intermediary but unlike wholesalers they are big, established and a lot more predictable.

In 2009, Avangardco was selling

Avangardco Shell Eggs at a Supermarket Shelf a mere 2% through supermarket chains. By the end of 2016, their share of company sales reached 60%. This is especially valuable now, in the current distressed market circumstances aggravated by the growing presence of a completely uncontrollable market player - egg-producing households - often creating oversupply situations and depressing the price. Trading through retailers dramatically enhances the accuracy of our production planning and sales forecasting, which is so crucial in the current challenging environment.

Avis Successfully Completes ISO 22000:2005 Certification, Chornobaivske Well on its Way to it, Avangardco Group ISO 9001:2015 Certification Achieved in January 2017

In November 2016, Avis, one of Avangardco's two modern mega-farms, successfully completed certification to ISO 22000:2005 for its food safety management system. The other mega-farm, Chornobaivske, is well on its way to receiving its certificate in early 2017.

At the group level, Avangardco received ISO 9001:2015 certification for its quality management system in January 2017.

The latest edition of ISO 9001, ISO's flagship quality management standard, allows organisations to adapt to a changing world. It

ISO 9001:2015 Certificate


CERTIFICATE
LLC «Agrarian Holding Avangard»
Quality Management System
ISO 9001 : 2015
DQS GmbH

ISO 22000:2005 Certificate


CERTIFICATE
Affiliate "Avis" Poultry farm" of Public Joint Stock Company "Agroholding Avangard"
Food Safety Management System
ISO 22000 : 2005
DQS CFS GmbH

enhances an organisation's ability to satisfy its customers and provides a coherent foundation for growth and sustained success.

ISO 9001:2015 is less prescriptive than its predecessor, focusing instead on performance. This has been achieved by combining the process approach with risk-based thinking, and employing the Plan-Do-Check-Act cycle at all levels in the organisation.

Avangardco's Bio-Security Safeguards Prove Strong amid Outbreaks of Avian Influenza in Ukraine

In November 2016, an outbreak of bird flu was registered in Kherson Province of Ukraine for the first time since 2008. In response to this outbreak followed by several more in Chernivtsi and Odessa Provinces several importing countries, among them - key export markets for Avangardco temporarily banned Ukrainian poultry products. The EU followed suit but then reduced its ban to the affected provinces only. Importantly, all those outbreaks occurred at individual egg-farming households practicing little to no bio-security at all, which stands in stark contrast to Avangardco's strong bio-security defences.

And even though some of the outbreaks occurred in or close to the home provinces of Avangardco's mega-farms, both

Avangardco Applies Strong Bio-Security Defences

Avis Poultry Complex

Chornobaivske Poultry Complex

Avis and Chornobaivske remained unscathed, and so did our other farms where the bio-security safeguards may not be as advanced as at the two mega-farms, yet they are more than solid.

Avangardco can continue to export its products to the UAE and EU, as well as to its other export regions, which have not banned imports from Ukraine.

Nataliya Vasylyuk Returns as CEO

In 2016, Avangardco warmly welcomed Ms. Nataliya Vasylyuk back on board as CEO of the company.

Ms. Vasylyuk was at the helm of the company at the most crucial moments in its history directing its rapid expansion in the home market and internationally. Under Ms. Vasylyuk's leadership, Avangardco went public in 2010 and became the world's second largest egg producer.

At this difficult juncture in the company's history, Ms. Vasylyuk returns to lead Avangardco back to growth, success and prominence.

HIGHLIGHTS OF COMPANY HISTORY

2003

The history of the company begins with the purchase of the Avangard poultry farm located in West Ukraine not far from Ivano-Frankivsk. The holding company was later named after the first poultry farm acquired.

2003-2009

The company implements a strategy of expansion through mergers and acquisitions, as well as organic growth. During this period, the company purchased additional 18 laying farms, 3 hatcheries, 3 rearing farms and 4 feed mills. In order to cover production needs for replacement flock, the company also constructed additional rearing farms. During the same period, the company constructs warehouses for long-term egg storage and 2 feed mills. This strategy ensures the company's presence in 14 regions of Ukraine and Crimea and supports our vertically integrated business model. In 2009, the company commissioned a modern egg processing plant, Imperovo Foods, outfitted with state-of-the-art equipment in partnership with Sanovo, a world leader in the manufacture of egg processing equipment. As a result, the company became the largest producer of shell eggs and and dry egg products in Ukraine. Avangardco IPL was incorporated on 23 October 2007 under the laws of Cyprus to serve as the ultimate holding company for Avangard.

2010-2013

Avangardco IPL enters international financial markets by successfully completing an IPO on the London Stock Exchange and attracting USD 208mn in new investment. An additional USD 200mn was raised through a Eurobond placement.

The company continues growing organically. Through a large-scale investment program culminating in the construction of the Avis and Chornobaivske modern poultry complexes, laying flock capacity increased to 30.1mn hens, while annual production capacity reached 8.6bn eggs. In 2013, the company completes a project for increasing egg processing capacity at Imperovo Foods to 6mn eggs daily.

2014

On 30 September 2014, Imperovo Foods receives official authorization to export dry egg products to the European Union. On 18 August 2014, the company's eggs and dry egg products become Kosher certified.

In 2014, the company suspended and recognised impairment of the following assets: the laying farm "Yuzhnaya-Holding", rearing farm "Yuzhnaya-Holding", laying farm and hatchery "Ptytsecomplex" due to the annexation of the Autonomous Republic of Crimea, as well as the laying farm "Chervonyi Prapor", rearing farm "Chervonyi Prapor", laying farm "Interbusiness" and "Vyhlehirskyi feed mill" due to a military conflict in Eastern Ukraine.

2015

In 2015, despite the difficult situation in the Ukrainian economy and demand contraction in the home market and overseas, the company scored a number of important achievements.

In particular, we added 7 new country markets to our export destinations for a total of 42.

The share of the EU in our egg powder exports rose to 40%. Trade through retail chains became our largest sales channel for the first time in company history.

We successfully restructured a USD 200mn Eurobond that represents a lion's share of our debt portfolio shifting its maturity from October 2015 to October 2018.

2016

Avangardco IPL restructured its debt with JSC "Oschadbank" and extended its maturity to 2022 with a grace period until 2018.

Avis poultry complex was certified to ISO 22000:2005 (Food safety management system), while Avangardco group passed ISO 9001:2015 certification for its quality management system.

OUR ASSETS

Asset Base Remains Solid Despite Loss of Assets in Eastern Ukraine and Crimea

Avangardco IPL operates a complex and vertically integrated network of assets, which enables the company to produce its finished products being shell eggs and dry egg products, key inputs, such as animal feed, and core manufacturing assets being laying hens. A unique feature of our vertically integrated business model is recycling animal waste into valuable commodities - biogas, thermal energy and electrical power.

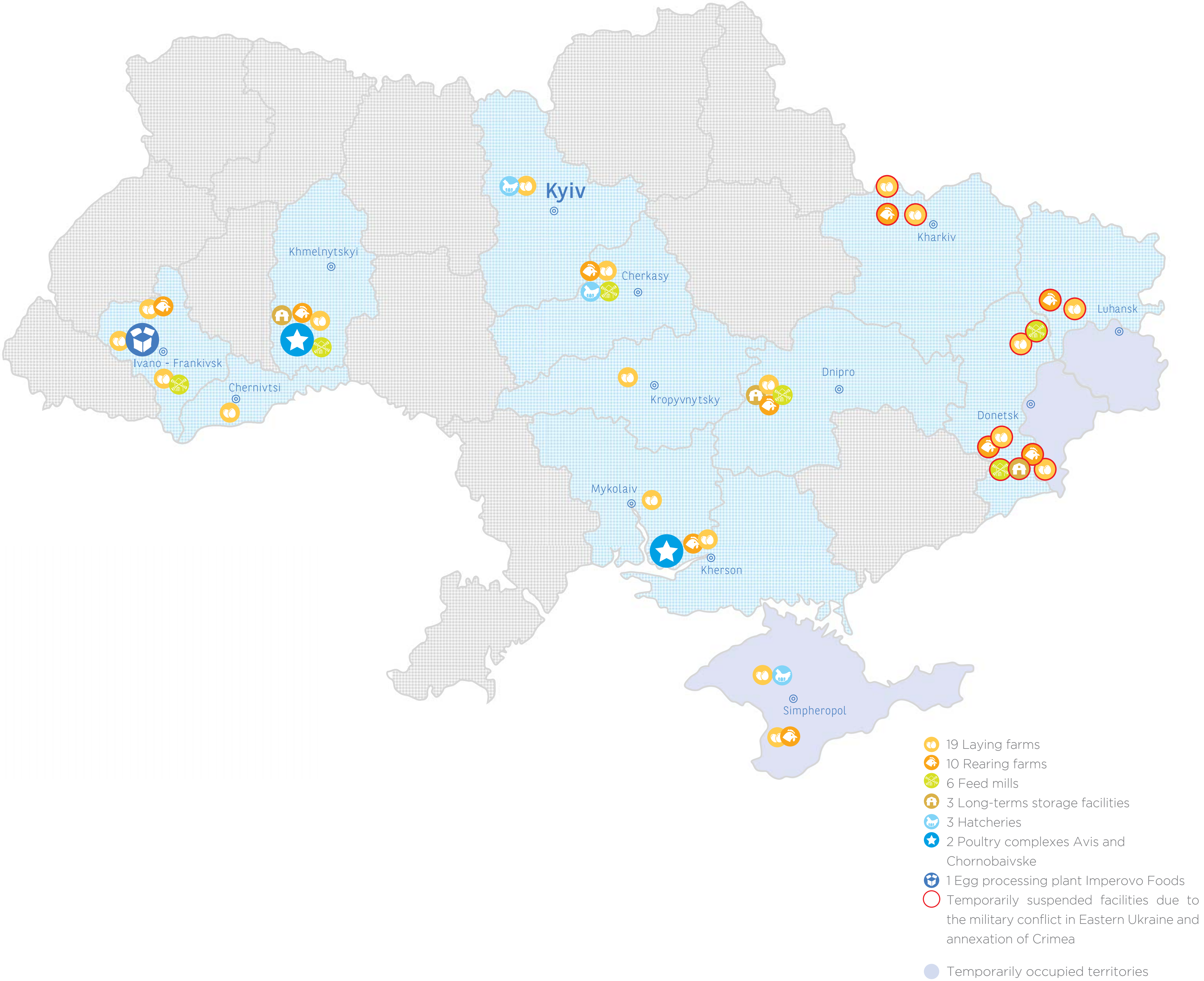
Our assets comprise 19 laying farms, 10 rearing farms, 6 feed mills, 3 hatcheries, 2 poultry complexes Avis and Chornobaivske and an egg processing plant, Imperovo Foods.[1]

We stay close to Ukrainian consumers by operating production facilities in 14 regions of Ukraine, which enables us to cover the whole country and meet consumer demand in an efficient and timely manner. The company's production facilities are evenly distributed geographically. For example, the Avis poultry complex, located in Western Ukraine, supplies eggs to the Imperovo Foods processing plant located near the EU border. This allows the company to minimise the cost of exports to European countries. The Chornobaivske poultry complex is located in Kherson region with close access to the Black Sea, which makes exports to the countries of the Middle East, Africa, Asia, and South Pacific more effective and allows the company to minimise logistical costs.

Despite substantial loss of assets due to the annexation of Crimea and a military conflict that has engulfed parts of Ukraine's eastern provinces of Donetsk and Luhansk we have been able to preserve the core of our asset base and retain all the key links in our vertically integrated business model.

We have also concentrated about 88% of our laying flock at Avis and Chornobaivske, our vertically integrated poultry complexes built and operated using state-of-the-art egg farming technologies.

[1] In 2014, the company suspended and recognised impairment the following assets: the laying farm "Yuzhnaya- Holding", rearing farm "Yuzhnaya-Holding", laying farm and hatchery "Ptytsecomplex" due to the annexation of the Autonomous Republic of Crimea, as well as the laying farm "Chervonyi Prapor", rearing farm "Chervonyi Prapor", laying farm "Interbusiness" and "Vyhlehirskyi feed mill" due to a military conflict in Eastern Ukraine.



OUR PRODUCTS

SHELL EGGS

Avangardco produces "table" shell eggs. Depending on weight, they are divided into 5 categories: premium, supreme, first, second and small. To accomodate consumer preferences, we produce white and brown eggs.

We sell shell eggs as branded packaged eggs in 10-egg cartons and in 30-egg trays. Domestically our shell eggs are sold through approximately 2,000 outlets throughout Ukraine including key supermarkets chains such as Auchan, ATB, Silpo, Novus, Pakko, Velyka Kyshenya, Karavan, Brusnichka and others. We export about 17% of our shell eggs.

Category	Shell egg weight, grams
Premium or XL	73 and more
Supreme or L	63 — 72.9
First or M	53 — 62.9
Second or S	45 — 52.9
Small	35 — 44.9

OUR BRANDS

Kvochka (Mother Hen)

Kvochka is a popular brand in the packaged eggs segment. Kvochka offers consumers high-quality and healthy products at an attractive price. We produce our own feed for laying hens and we know for a fact that Kvochka eggs are not only healthy but also very tasty. Kvochka - branded eggs have been endorsed by the Ukrainian Research Institute of Nutrition.

Domashny (Homelaid)

Nothing beats homelaid eggs, be it for a family breakfast, feast or for baking delicious pastries. We make sure we deliver them to your table. Domashny (Homelaid) branded eggs are eggs from hens that receive all our loving care and natural feeds. These eggs are nutritious, healthy and very tasty!

Organic Eggs

We offer Ukrainian buyers a modern product under the Organic Eggs brand. This product takes the top spot in the Kvochka brand portfolio and celebrates the company's commitment to offering only fresh and natural products.

EGG PRODUCTS

Avangardco produces the following main types of dry egg products: egg albumen powder, high-whip, egg albumen powder, high-gel, whole egg powder, egg yolk powder and heat-stable egg yolk powder. Depending on clients preferences, we can add many additives to the product, for example sugar, salt, etc. The company produces its dry products at the state-of-the-art egg processing facility Imperovo Foods (www.imperovo.com.ua).

We export 91% of our dry egg products. The main customers of egg products are companies in the food industry such as confectionery, fat-and-oil, bread, meat processing and others.

Product type	Application & Functionality	Product description
Egg albumen powder, high-whip	Suitable for the confectionery and bakery industry. The advantages of this product include excellent whipping qualities and good foam stability. A further advantage is the storage conditions, handling and shelf life of powder compared to liquid products.	Consists of 100% natural de-sugared, spray dried and pasteurized egg white. 100 g of powder dissolved in 700 g of water corresponds to 800 g of fresh egg white (equivalent to approx. 25 eggs).
Egg albumen powder, high-gel	Suitable for the confectionery, bakery and meat industry. The advantages of this product include premium gelling and water binding properties.	Consists of 100% natural de-sugared, spray dried and pasteurized egg white. 100 g of powder dissolved in 700 g of water corresponds to 800 g of fresh egg white (equivalent to approx. 25 eggs).
Whole-egg powder	Suitable for baked products, ready meals, meat products etc. The advantages of this product include its texture and emulsifying properties.	Consists of 100% whole egg powder. Pasteurized and spray dried whole egg. 100 g dissolved in 300 g of water corresponds to 400 g fresh whole egg (equivalent to approx. 8 shell-eggs).
Egg yolk powder	Suitable for mayonnaise, dressings, pasta, ice cream, baked products, cake mix or other products where egg yolk is needed. The advantages of this product include its emulsifying qualities, taste, colour and texture.	Consists of 100% natural pasteurized and spray dried egg yolk. 100 g of powder dissolved in 125 g of water (equivalent to approx. 225 g of liquid egg yolk).
Heat-stable egg yolk powder	This type is used mainly in the mayonnaise industry, as it is characterized by thermostability as well as excellent emulsifying properties. Provides stable emulsion in high temperature conditions, long-term storage.	Consists of 100% natural pasteurized and spray dried egg yolk. 100 g of powder dissolved in 125 g of water (equivalent to approx. 225 g of liquid egg yolk).

VERTICAL INTEGRATION

Avangardco's vertically integrated business model provides stronger control over costs and improves efficiency, whilst ensuring consistent quality of inputs and quality control at each stage of production

1 2 External inputs:

- Avangardco is largely self-sufficient in terms of core production materials, sourcing from third parties only breeder flock, feed grains and a small proportion of animal feed required for shell egg production.

3 Animal feed production:

- Avangardco operates 4[1] feed mills with a total production capacity of 104 tons of feed per hour.

- In addition, the newly built Kamyanets-Podilsky feed plant at the Avis poultry complex has a 10 ton-per-hour soybean extrusion line and a grain elevator with a capacity of 56 th tons.

- In 2016, we produced 84% of the animal feed required for shell egg production.

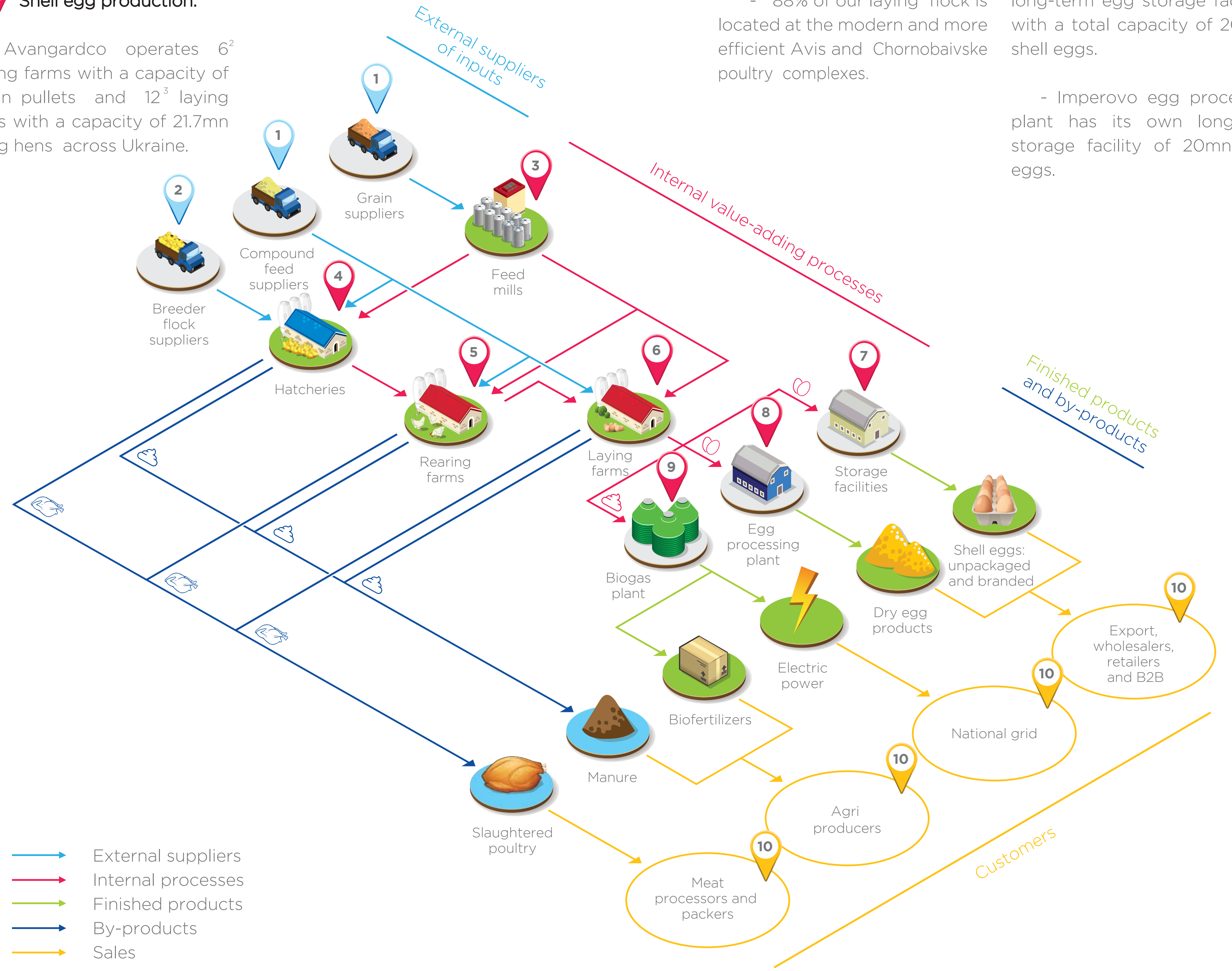
4 Production of hatching eggs:

- Avangardco is 100% self-sufficient in hatching eggs.

- Currently, the company produces all hatching eggs at the Slovyany hatchery, which is the largest hatchery in Europe with a production capacity of 21.1mn one-day old chicks per year.

5 6 Shell egg production:

- Avangardco operates 6[2] rearing farms with a capacity of 7.0mn pullets and 12[3] laying farms with a capacity of 21.7mn laying hens across Ukraine.



- Avangardco had 10.3mn laying hens as at year end, which produced 2.5bn shell eggs in 2016.

- 88% of our laying flock is located at the modern and more efficient Avis and Chornobaivske poultry complexes.

7 Storage facilities:

- In addition to short-term storage facilities at each laying farm, Avangardco operates 2[4] long-term egg storage facilities with a total capacity of 200mn shell eggs.

- Imperovo egg processing plant has its own long-term storage facility of 20mn shell eggs.

8 Production of egg products:

- Avangardco has increased egg processing capacity at Imperovo Foods to 6mn shell eggs per day to manage the peaks and troughs in demand and produce added-value dry egg products.

- In 2016 approximately 1.0bn shell eggs was processed into 12,219 tons of dry egg products.

9 Co-generation:

A company-owned biogas plant at Chornobaivske poultry complex with a total capacity of 6MW, allows Avangardco to dispose of chicken manure and produce green electricity, heat and organic fertilizers while protecting the environment of the region.

10 Sales:

- Avangardco sells its products to thousands of customers across Eurasia and Africa and is fully committed to its customers' wellbeing, ensuring that its products are of a consistently high quality and safe for consumption.

1, 2, 3, 4 Excluding suspended facilities in Eastern Ukraine and Crimea.

OUR VALUE CREATION MODEL

VERTICAL INTEGRATION +

Most businesses have just one stream of value creation. They buy their inputs and add value to them by processing or reselling them.

Avagardco business model integrates multiple value-adding activities that form our unique value streams or cycles.

We go beyond classical vertical integration by doing considerably more than just producing our inputs instead of buying them.

In few industries does vertical integration go as far as to include in-house production of manufacturing assets.

Egg farming is one industry where this is not only possible but also highly feasible. Very few industrial egg farmers, however, have the capabilities required to produce their own manufacturing assets - laying hens.

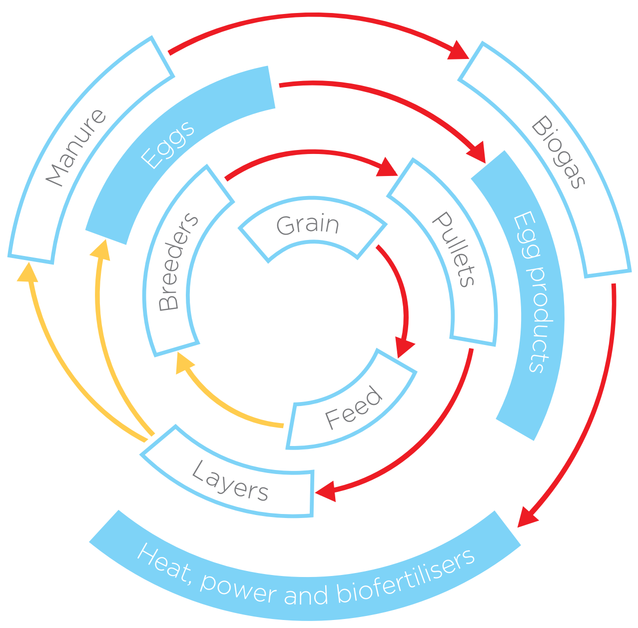
Avangardco has that capability. We produce, or rather, grow our own productive assets, our hens, from a very young age. As a matter of fact, they are born into our hatcheries, grown to egg-laying age and used productively until we retire them.

Laying of eggs is not where it ends though. We set aside some of the eggs laid and add more value by processing them into several varieties of egg products.

But even that is not all there is to our value creation model. As part of our core operations, we generate by-products, which would be discarded as waste if we didn't think of a way of using them productively.

The diagram below describes Avangardco's multiple and mutually enhancing cycles of value creation. It also shows our value-adding activities and identifies our finished products.

Avangardco's Value Creation Model



Value-adding activities
Internal processes
Finished products

Grain $\xrightarrow{\text{Milling}}$ Feed

Breeders $\xrightarrow{\text{Breeding}}$ Pullets $\xrightarrow{\text{Rearing}}$ Layers

Eggs $\xrightarrow{\text{Processing}}$ Egg products

Manure $\xrightarrow{\text{Anaerobic Digestion}}$ Biogas $\xrightarrow{\text{Co-generation}}$ Heat, power, biofertiliser

OUR STREAMS OF VALUE CREATION

Our value creation streams help us source key inputs and productive assets and add value to them in the most secure, sustainable and cost-effective manner. All our value creation streams share three important characteristics or dimensions:

Doing it cost-effectively	We look for the best deals on our inputs and productive assets and add value at the lowest cost to improve profitability.
Doing it safely	We put biological security first. It overrides all other considerations when we make our sourcing decisions.
Doing it sustainably	We use sustainable sourcing practices to ensure that we continue to have uninterrupted access to our key inputs and productive assets.

The Feed Stream

Grain $\xrightarrow{\text{Milling}}$ Feed

Animal feed is without a doubt our most important input and cost driver. Its share of the company's cost of production is as high as 70% as of 2016. We source animal feed cost-effectively, safely and sustainably:

- **Doing it cost-effectively:** the cheaper the price we pay for feed the higher our margin on egg sales, as simple as that;
- **Doing it safely:** cost is an important consideration but not the decisive one – biosecurity always takes precedence in all our sourcing decisions including feed, which represents one of the potential avenues of contagion.

It is the second dimension that convinced us early on in our company's history that there was no better way to enforce rigorous biosecurity standards than to build and operate our own animal feed mills where we have produced up to 84[1]% of the volume of animal feed that we require to sustain our operations. We buy grain and other ingredients and mix compound feed in strict accordance with the recipes prescribed by our suppliers of breeder flock.

- **Doing it sustainably:** we buy grain from a large community of grain farmers with whom we've built long-term business relationships over the years.

For several years, we successfully practised a sourcing strategy consisting in buying grain forward to lock in the best possible price and secure seamless supply. We were always getting a better deal because we were buying in bulk and buying forward fixing the price when it was at its lowest, that's around harvesting season. Yes, we had to invest additionally into grain storage facilities to store the grain but the discounts we were getting on our grain purchases made that investment worthwhile. Our research shows that the discounts were as large as 15% on average compared to buying spot, which given the large volume of grain we were buying each cycle gave quite a boost to our aggregate margin. This is how vertical integration works at its most basic.

On top of earning us an additional rate of return on our investment in grain, this strategy enabled us to forecast and manage our overall profitability to a high degree of accuracy given the fact that feed is our largest cost input.

This strategy has paid off in the past and we are sure it will in the future. It's just that we have had to suspend it temporarily in the current difficult economic circumstances faced with a dearth of liquidity. We still produce most of the feed we need at our own feed mills in a biologically controlled environment, so the fact that we have put buying grain forward on hold for a while has not compromised the strength of our biosecurity defences.

The Breeding and Rearing Streams

Breeders $\xrightarrow{\text{Breeding}}$ Pullets $\xrightarrow{\text{Rearing}}$ Layers

It is extremely rare even for cases of the strongest vertical integration to include the production of the manufacturing assets with which finished products are created. It is not that unusual in poultry farming but it's not the norm all the same.

Egg farming relies on a unique and complex supply and value chain that incorporates a traditional production stream involving the manufacturing of inputs, such as feed, as described above, where value is added and extra margin is earned in the classical sense of vertical integration by producing inputs in-house instead of buying them from third parties.

Unique to egg farming are two more streams of vertical integration and value creation whereby the industry's productive assets – laying hens – are created. And Avangardco

[1] As of 2016.

IPL includes them both in its vertically integrated ecosystem.

Unlike in most industries, in egg farming manufacturing assets are not built or manufactured, they are grown at a special type of farm called a rearing farm. Vertically integrated industrial egg producers normally buy one-day-old pullets from breeders to rear them to laying age at which point the new laying hens are moved into a laying farm to lay eggs. Those with no vertical integration at all buy fully grown laying hens from third-party rearing farms.

Avangardco IPL owns and operates 6[2] rearing farms where we rear all our laying hens in a biologically secure and controlled environment.

But unlike most other industrial egg farmers we do not buy our pullets from breeders, we are breeders ourselves. The company owns and operates two[3] hatcheries equipped to the state of the art of modern technology, one of which is Europe's largest, where it breeds the parents of our future laying hens. We buy breeder chickens from Lohmann Tierzucht, Hy-Line International, H&N, the world's leaders in poultry genetics, and then produce the pullets that we eventually grow into layers.

Breeding and rearing operations enable us to source our primary productive assets, laying hens, cost-effectively, safely and sustainably:

- **Doing it cost-effectively:** it is by definition cheaper for us to produce our laying hens in-house rather buy them as one-day-old pullets or fully grown layers.
- **Doing it safely:** biological security works best if all the links in the supply chain are equally rigorously controlled. If a stand-alone egg farm without vertical integration buys its layers from a third-party, strong as the latter's biosecurity defences may be, the risk of disease affecting the flock is bound to be higher than for a vertically integrated farm that gets its layers from a rearing farm enforcing biosecurity standards of equal rigour.
- **Doing it sustainably:** on top of all the benefits that this depth of vertical integration offers in terms of profitability and biosecurity, it ensures an exceptionally high degree of sustainability to our business model allowing us to accurately plan our breeding, rearing and laying operations within one planning cycle.

Laying as a Value-Adding Activity Enhanced by Vertical Integration

Laying of eggs is a value-adding activity that benefits from all other streams of vertical integration if there are any. The streams described above have traditionally contributed to Avangard's impressively high margin on egg sales until recently. In the current critical economic circumstances brought on by a military aggression against Ukraine and annexation of parts of our territory by a foreign power, our margin from egg farming operations has plummeted dramatically but we hope to recover its normal sustainable level when the crisis is over.

[2] Excluding suspended facilities in Eastern Ukraine and Crimea.

[3] As of 2016.

The Processing Stream

Eggs → Processing → Egg products

The next stream of our vertical integration goes beyond egg production. We process eggs into dry egg products to create a new commodity by adding value to shell eggs. Dry egg products or egg powder come in several distinct varieties depending on their uses. There are varieties produced from egg yolks, some from egg whites that bifurcate into sub-varieties with high gel-forming capabilities or high foaming capacity. Egg powder also has a much longer shelf life; it can be stored for up to 2 years. Avangradco IPL has built and operates Eurasia's largest and most modern egg-breaking plant capable of producing both dried and liquid varieties of egg products.

We produce egg powder cheaply and safely while the sustainability features of this business segment benefit our entire vertically integrated business model.

- **Doing it cost-effectively:** we are one of the world's most cost effective producers of egg products because we source eggs in-house at a cost that fully benefits from our deep vertical integration.
- **Doing it safely:** all eggs we process into powder come from our own egg-laying farms protected by our strong biosecurity defences. Upon breaking, the egg mass gets pasteurised, which renders it and the resulting egg products sterile.
- **Doing it sustainably:** it is a unique feature of our vertical integration that is extremely critical in the unique circumstances of Ukraine's home egg market where organised industry traditionally shares the market with egg-producing households that cause unmanageable oversupply situations in times of crisis when household income drops forcing families to switch to home-laid eggs. Egg processing allows the company to literally save any excessive volume it inadvertently produces, when household production surges, from being sold at a loss or spoilt, by converting it to egg powder that can be stored for a considerably longer time.

There are two more streams of value creation that the company has added recently to its vertically integrated business model – biogas produced from chicken manure generated by Avangard's megafarms of Avis and Chornobaivske will be converted to heat, electric power and biofertilisers using co-generation technology.

The Anaerobic Digestion and Heat and Power Co-Generation Streams

Manure → Anaerobic Digestion → Biogas → Co-generation → Heat, power, biofertiliser

Avis and Chornobaivske are huge not only in terms of production volume or flock, they are also Eurasia's largest by another important metric – the amount of chicken manure produced in one place. Each one of the two megafarms when fully populated can generate close to 1,200 tons of manure per day.

Unless it is safely disposed of, manure can present a major environmental challenge. The best and most environmentally sound way of dealing with manure is to convert it to biogas through anaerobic digestion and then convert it to thermal energy, electric power and biofertiliser via co-generation.

- **Doing it cost-effectively:** By recycling manure productively we avoid the costs of having to dispose of it in the conventional way, literally by taking it to a landfill. True, it costs money to operate a biogas plant but the value derived from manure turned to biogas turned to heat and power more than compensates for the cost of biogas plant operation.
- **Doing it safely:** it is obvious that the safest way to deal with manure potentially posing a biosecurity risk especially if generated in large volumes is to dispose of it on site without having to move it anywhere. Anaerobic manure digestion is a process whereby manure gets biologically deactivated in a controlled environment.
- **Doing it sustainably:** recycling biological waste into valuable commodities and at the same time preventing environmental pollution. It just doesn't get any more sustainable than that. Yet, there's more. The biogas plants that we are building at Avis and Chornobaivske are expected to fully meet our demand for heat and electricity. We estimate that at full capacity our biogas plants will be generating surplus power that we'll be able to sell to the national grid at the so-called green tariff, which is significantly higher than the normal price of power produced from fossil fuels. In fact, we intend to continue sourcing electricity from the grid at the normal price and sell all our green energy at the green tariff. Using a by-product of anaerobic manure treatment, we will also be producing liquid and granulated biofertilisers, for which we will be consuming the thermal power obtained from biogas processing.

Admittedly, the margin-earning potential of our vertical integration has been depressed over the past three years due to the economic recession that set in after Crimea was annexed by Russia and the military conflict started in Eastern Ukraine. But only on the financial side, technically it keeps on running like clockwork. We are confident that we will be able to recover our historically high margins when the crisis has passed.

LETTER FROM CEO

Nataliya Vasylyuk,
Chief Executive Officer

Dear shareholders, bondholders, lenders and business partners!

It gives me great pleasure to welcome you on behalf of our entire team at Avangardco IPL and extend our sincerest appreciation to all of you for your continued interest in our company, your unwavering commitment, support and understanding of the many challenges and difficulties that the current situation presents.

The military aggression against Ukraine perpetrated by a foreign power resulting in the annexation of sovereign Ukrainian territory and effective occupation of parts of Ukraine's eastern provinces has triggered a deep economic recession marked by a double-digit decline in GDP, strong inflation, threefold depreciation of Ukraine's national currency and unprecedented contraction of consumer demand brought on by a severe decline in disposable household income.

Some industries and companies have been worse affected than others. Ukraine's modern egg-farming industry has suffered a substantial decline under pressure from overall contraction in egg consumption, increased production of eggs by households and reduced exports.

Amid these difficult circumstances, we have been able to preserve our core segments and our unique vertically integrated business model and even though we have lost a substantial proportion of our assets we have not completely divested any of those that represent crucial links in our integrated value chain, e.g. hatcheries, feed mills or egg processing facilities.

We have responded to demand contraction in several ways. In particular, we have concentrated a higher proportion of the company's laying capacity at our modern and more efficient vertically integrated poultry complexes of Avis and Chornobaivske while enforcing some of the world's most stringent biological security standards.

We have also substantially increased the share of egg sales made through Ukraine's major retail chains. As of 2016, they represented our largest distribution channel accounting for 60% of total egg sales.

By promoting sales through retail chains we make our sales increasingly more predictable and secure.

We have also increased the share of egg output processed into dry egg products as a risk mitigation strategy against oversupply situations created in Ukraine's domestic shell egg market by increased household production, coinciding with a weaker consumer demand and reduction in export sales.

In 2016, while the overall economic situation in Ukraine remained largely unfavourable, we started seeing some early signs of a recovery. GDP produced a small yet positive growth for the first time in three years, whilst both inflation and devaluation decelerated. Towards the end of the year the government approved a series of important decisions aimed at boosting consumer demand including a decision to double the minimum wage from January 2017.

At the same time, a number of unfavourable developments occurred in Ukraine's tax and regulatory environment affecting agricultural producers. In particular, the government completely abolished the preferential treatment of agricultural producers as payers of Value Added Tax.

Another government programme, however, promises to partially offset the adverse impact of this move. Among its many elements, it features a direct subsidy to the farming industry. In 2017, its amount is expected to total UAH4bn.

Exports of Ukrainian shell eggs and egg products further declined as political instability in the Middle East and North Africa continued to obstruct trade in most commodities including eggs.

Egg product exports also contracted as competition toughened in the global egg product market due to increased presence of US and European producers.

Amid those pressures, we were forced to further reduce our flock size, cut production and sales while at the same time increase egg processing to counter oversupply in Ukraine's domestic shell egg market.

While these developments put considerable pressure on our debt-servicing capacity we continued servicing our Eurobond obligations. In particular, we made coupon payments on our Eurobond based on renegotiated terms.

We have managed to retain our market leadership and technological edge as one of the most efficient, cost-effective and technologically advanced industrial producers and processors of chicken eggs not only in Ukraine but also in all of Eurasia.

We hope that 2017 will usher in a genuine recovery and we will claim our fair share of the deferred demand for eggs that has built up over the past three years. We expect seasonal price fluctuations in Ukraine's domestic shell egg market to stabilise and a healthy balance between industrial and household production to be recovered.

We very much look forward to a peaceful resolution of the military conflicts in Ukraine and MENA, which will normalise both domestic trade and exports.

Let me once again thank you for your appreciation of our current situation. We thank you for your faith in the company and we are confident that with your unwavering support Avangadco IPL will soon reemerge as a vibrant growth story and regain its position as a world leader in its industry and one of Ukraine's most successful public companies.

Sincerely,

Nataliya Vasylyuk
Chief Executive Officer

ECONOMIC RECOVERY

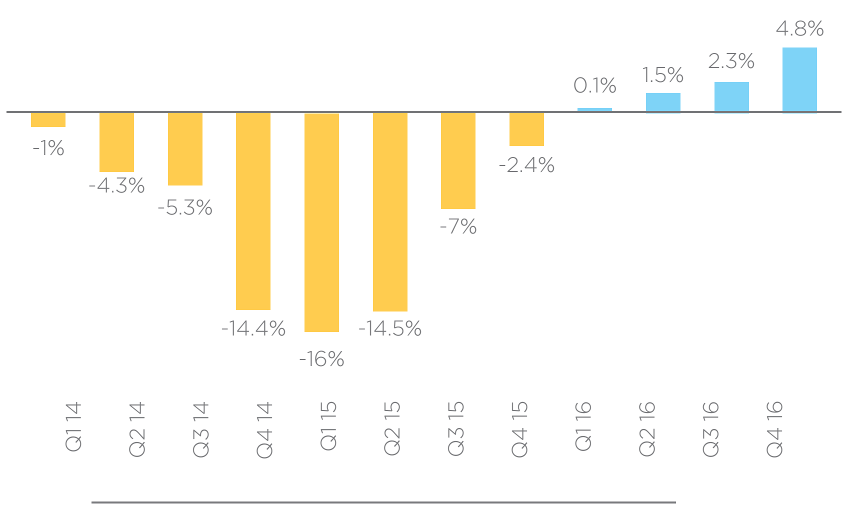
The Tide Has Turned at Last

After three years of seemingly irreversible economic downturn brought on by the Russian aggression, annexation of Crimea and the occupation of parts of Ukrainian territory in the easternmost provinces of Donetsk and Lugansk bordering on Russia, the national economy of Ukraine has finally started showing the first signs of a recovery.

- **GDP gets back on a growth track.** In 2016, Ukraine's GDP produced a positive year-over-year growth of 2.3%. Admittedly, much if not all this growth is attributable to the low baseline effect but what's important here is not the size of the growth, in absolute or relative terms, but the very fact that it's finally happened. The tide has turned!

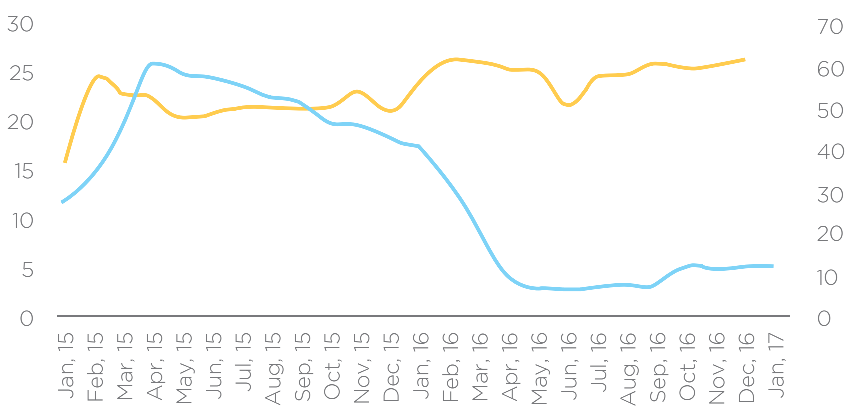
- **Annual inflation decelerates to 13.9% from 48.7% the year before.** Even though it failed to break out of double-digit territory, inflation demonstrated a huge improvement in 2016 dropping more than three times from the year before. There are factors at play, however, that are pushing inflation up, e.g. increasing utility prices.

GDP Growth, YOY, in constant 2010 prices, %[1]**:**



Source: State Statistics Service of Ukraine

CPI and UAH/USD Exchange Rate[2]**:**



Weighted average UAH/USD rate

Inflation rate YOY, %, rhs

Source: State Statistics Service of Ukraine, company data

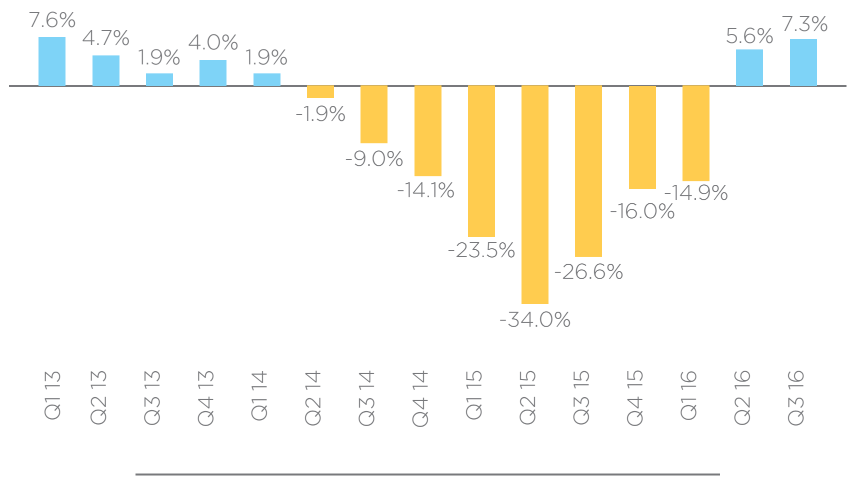
- **Local currency depreciation slows down too.** In 2016, the Ukrainian hryvnia lost 17%[3] of its value YOY, which is no small loss, of course, but compared to the 83%[4] the year before it is quite an achievement.

- **Real household income has yet to catch up with macroeconomic improvements.** Real household income started to contract sharply from Q2 2014 as the economic downturn triggered by the foreign military aggression began to unfold. The most severe loss of income befell Ukrainian households in 2015 with the trough of the curve reached in Q2 2015. In the last two quarters of 2015 and Q1 2016 the decline in real household income continued but the pace of the decline decelerated and eventually turned to growth from the second quarter of 2016. Admittedly, there remains a lot of catching up to do before real household income approaches the level of 2013.

[1, 2, 5] Excluding the Autonomous Republic of Crimea, the city of Sevastopol and the military conflict zone in Eastern Ukraine.

[3, 4] Calculated at weighted average rate for the period.

Change in Disposable Income of Households, YOY, %[5]**:**



Source: State Statistics Service of Ukraine

OPTIMISM GOING FORWARD

GDP, Household Income and Retail Trade Expected to Grow

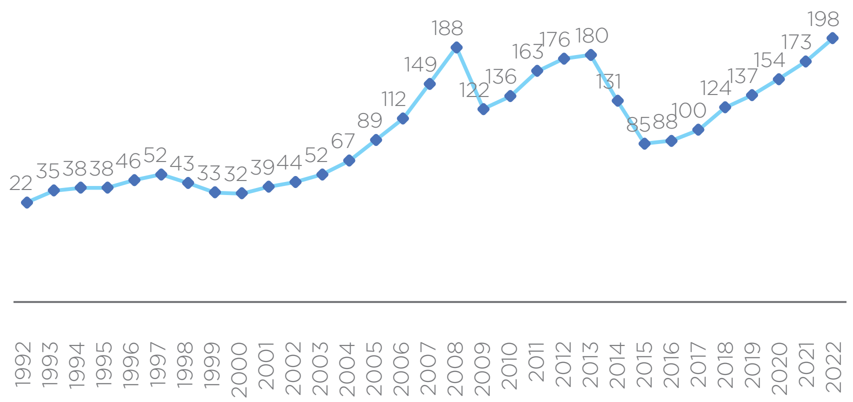
Experts and analysts from government agencies, think tanks and reputable international financial institutions agree that the recovery that started in 2016 will continue into 2017 and beyond. They may disagree as to its pace or risks that may undermine it or slow it down but they are almost unanimous in predicting sustainable improvements across most macroeconomic fundamentals going forward.

- **Macroeconomic fundamentals expected to strengthen.** The World Bank and the IMF predict that in 2017 Ukraine's GDP will grow by 2%. The IMF is also predicting a lower annual inflation rate in 2017 compared to 2016 – 11.5% YOY. Some independent economists, such as Independent Macroeconomic Forecasts Group (IMF Group) (http://imfgroup.com.ua/en/), are even more optimistic in their outlook for Ukraine's GDP growth in 2017 and beyond.

- **Domestic demand expected to recover.** The positive trends setting in across Ukraine's macroeconomic

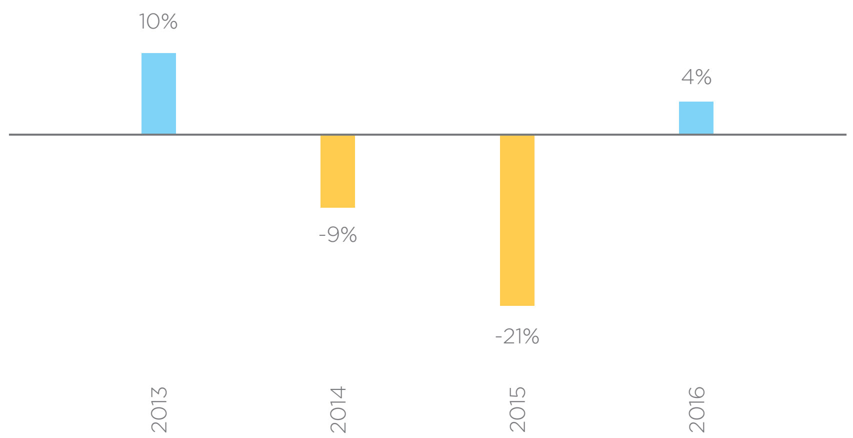
[1] Excluding the Autonomous Republic of Crimea, the city of Sevastopol and the military conflict zone in Eastern Ukraine.

Real GDP of Ukraine, in bn USD (1992-2022):



Source: Based on National Statistics and Projections by Independent Macroeconomic Forecasts Group

Retail Trade Dynamic, YOY, at comparable prices, %:[1]



Source: State Statistics Service of Ukraine

fundamentals will be further strengthened by the positive effects of a decision adopted by the Ukrainian Government to double the size of the minimum wage from UAH 1,600 (~ USD 60[2]) to UAH 3,200 (~ USD 120[3]) per month with effect from the 1st of January, 2017.

Just as in the case with GDP, most economists agree that this increase will have a positive impact on domestic demand and retail trade that also started picking up towards the end of 2016.

Ukraine's Ministry of Finance, while announcing the decision to double the minimum wage in December 2016, made the following statement: «To the extent that this decision is going to increase income for the poorest strata of the population it will be spent in the first place on food, clothes and other essentials».

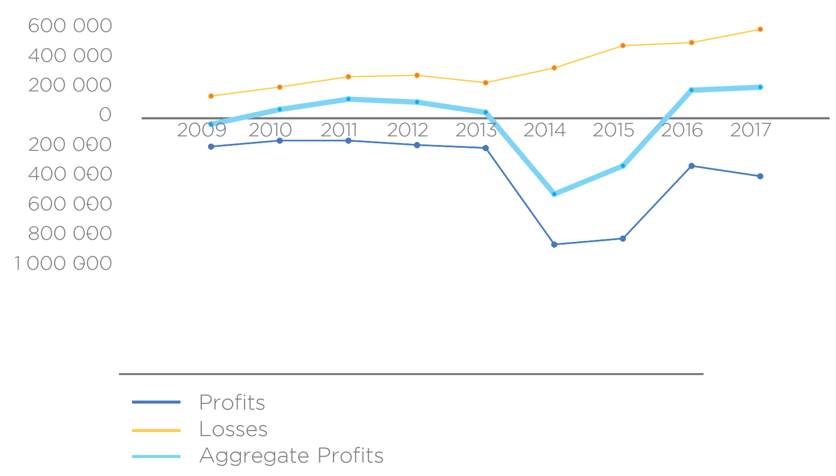
This view is shared by most economists because it simply makes sense. Ukraine's economy has seen such severe loss of disposable household income in the past three years, triggering a critical contraction of domestic demand, that any increase in the income of the poorest families, those drawing minimum wages, is bound to translate into new demand for basic goods and services, e.g. food, clothing, etc. Technically, that would not be new demand, rather it would be old demand, also known as deferred demand - the purchases of goods and services that households have had to defer until later under income pressures.

This move is going to affect the entire labour market, not only minimum wage earners. Employers will be forced to increase wages and salaries to higher-paid personnel to retain talent and preserve their pay grade systems. Admittedly, this is going to put additional strain on corporate profits already under pressure from the ongoing economic recession. However, this effect will be to a certain extent mitigated by a simultaneous reduction in payroll taxes and the good news is that corporate profits have also started to pick up as per official statistics.

Admittedly, far not all employers will be giving raises across the board. But at the very least we could count on officially registered minimum wage earners. According to official statistics, there are 3.7 million working Ukrainians officially reported as drawing the minimum wage. For this category alone, the decision to double the minimum wage from UAH 1,600 to UAH 3,200 will increase payroll by UAH 5.92bn per month in 2017.

[2,3] Calculated at UAH/USD exchange rate as at 31 December 2016.

Aggregate Corporate Bottom Line, UAH, mn:



Source: Based on National Statistics and Projections by Independent Macroeconomic Forecasts Group

MARKET OVERVIEW

UKRAINE'S EGG MARKET FOR SHELL EGGS

Market Contraction Decelerates to Single Digits, Exports Continue Declining

Total Production Decreases in Response to Declining Consumption

From the year 2000, egg consumption in Ukraine was growing steadily exceeding 310 eggs per capita for the first time in 2011. In 2012, domestic egg consumption slightly contracted as the volume of export of shell eggs and egg products increased.

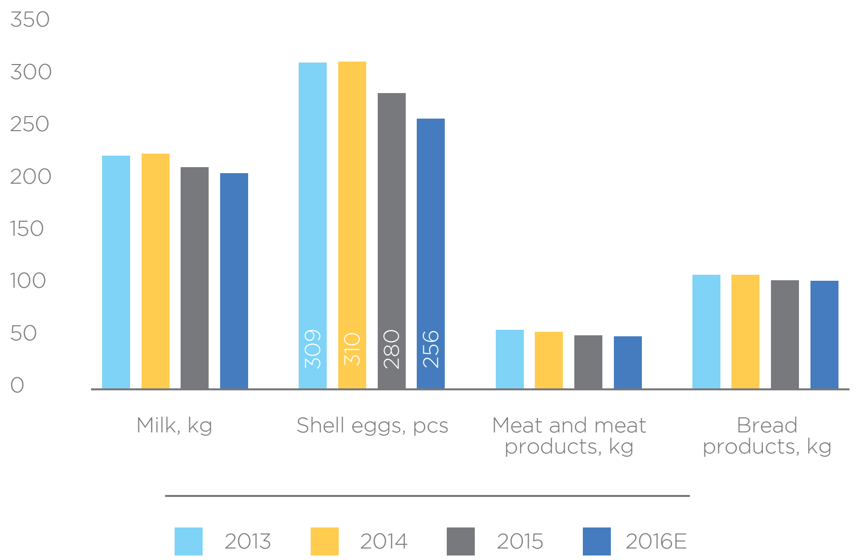
Since 2014, egg consumption per capita has started to decline under pressure from the unfolding economic recession triggered by the annexation of Crimea and foreign occupation of parts of Ukrainian territory.

The annexation of Crimea alone resulted in a 5% reduction in Ukraine's total egg consumption (as of 2013). The partially occupied provinces of Donetsk and Lugansk once accounted for 14% of domestic consumption (as of 2013).

In 2015, egg consumption contracted by 10.5% YOY totaling 11,949mn eggs as purchasing power declined in response to household income contraction. Per capita consumption dropped to 280 eggs.

Kvochka Branded Shell Eggs

Egg Consumption Per Capita vs. Other Basic Foodstuffs :



Source: State Statistics Service of Ukraine, Pro-Consulting

In 2016, total egg consumption continued to decrease dropping to 10,923mn eggs or 8.6% YOY. Per capita consumption declined to 256 eggs per year.

Egg production experienced a further net contraction of 9.9% YOY in 2016, which can be considered an improvement compared to the double-digit rate of decline of 14.3% the year before.

Egg Production in Ukraine during 2007-2016, mn eggs:

Year	2007	2009	2010	2011	2012	2013[1]	2014[2]	2015[3]	2016E[4]
Total	14,063	15,908	17,055	18,690	19,117	19,094	19,587	16,783	15,114
growth rate, %	-1.2%	6.4%	7.2%	9.6%	2.3%	x	2.6%	-14.3%	-9.9%
Households	6,458	6,650	6,805	6,952	7,133	7,000	7,051	7,021	7,032
share of total production, %	45.9%	41.8%	39.9%	37.2%	37.3%	36.7%	36.0%	41.8%	46.5%
Industry	7,605	9,258	10,250	11,738	11,984	12,094	12,536	9,762	8,081
share of total production, %	54.1%	58.2%	60.1%	62.8%	62.7%	63.3%	64.0%	58.2%	53.5%

Source: State Statistics Service of Ukraine, Pro-Consulting

Just as in the case with consumption, egg production also enjoyed steady growth from the early 2000s until 2014 when recession started. Between 2007 and 2014, total egg production increased 39% YOY from 14,063mn eggs to 19,587mn eggs in response to increasing domestic consumption and growing exports.

This period was characterised by rapid expansion of modern egg-farming industry, a process very much inspired and led by Avangardco IPL as the industry's largest player. At the same time, households (small home farms), once the market's largest supplier, were consistently giving up market share to a considerably more efficient industry.

Towards the end of 2014, however, the trend reversed again and households started regaining their lost market turf. But it's not because they suddenly became more efficient than industrial egg producers.

[1,2,3,4] Excluding the Autonomous Republic of Crimea, the city of Sevastopol and the military conflict zone in Eastern Ukraine.

Ukraine's Domestic Egg Market: a Unique Competitive Environment.

Competition between households and industry in Ukraine's egg market does not lend itself to being described in classical market competition terms where two or more players would be competing to improve their product quality, reduce costs, promote their products to win a larger market share than their competitors. In fact, in our case one of the players – industry– is indeed behaving that way but the other – households – is acting in an erratic and unpredictable manner. Because they are not a market player in the classical sense of the word.

Households when referred to as egg producers are simply families living in villages or small towns and keeping one or two hens to produce and eat their own eggs.

This is more of a hobby when family income is high but it becomes a necessity when family income drops. Unlike industrial layers, homebred hens only lay eggs in warm weather reaching their peak productivity during the summer months. In times of economic hardship, more and more families decide to rear their own laying hens satisfying family demand for eggs and putting any surplus to the market instead of buying their eggs from industrial producers.

This is the mechanism whereby household production squeezes out industrial producers that have no other choice but to adjust their production volume, which is hard to do because, then again, households do not operate as a single market participant, they do not do any production planning. That is why it is extremely difficult to predict the volume they are collectively going to put to the market. Hence, avoiding overproduction becomes next to impossible and the price often drops below cost of production for most industrial producers when the market gets strongly oversupplied.

This is what happened in Q2 and Q3 2016. Excessive household production sent the price nosediving, killing off smaller industrial producers and forcing the larger ones to sell at a loss. Even Avangardco IPL that has the unique opportunity of converting excessive production volume into durable egg products or selling it to foreign buyers had to sustain losses because of the great uncertainty that households create in the domestic egg market.

Consumers may be excited when the price drops in the summer and they only wish they could store up eggs to last them until the next summer. But, alas, this is impossible, eggs are a perishable product. In the late autumn, excitement turns to frustration when household production

Shell Egg Production in Ukraine by Segment, %:

Source: State Statistics Service of Ukraine, Pro-Consulting

hibernates until it gets warm again, the egg price skyrockets and families are forced to pay several times more for their eggs now.

This neatly encapsulates the harmful effect that households exert on Ukraine's domestic egg market. They are rocking the boat increasing price fluctuations, and every time they force the price below breakeven point for industry and killing off more industrial producers the price rebounds to a new high simply because when household production volume eventually drops the market gets even more undersupplied because the capacity destroyed during the summer waterboarding of industrial egg farmers is no longer there, which creates an increasingly greater shortage in the market causing the price to hike.

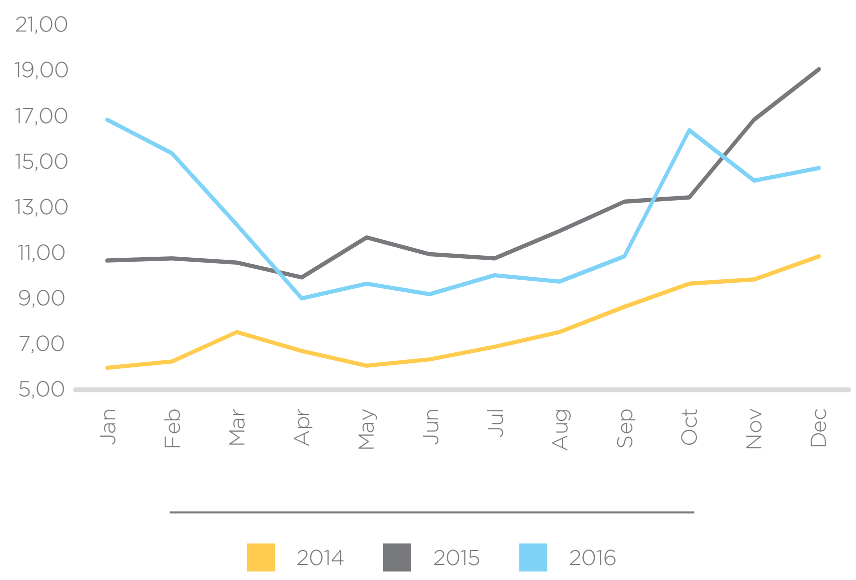
In 2016, the pressure on domestic egg prices from households was further compounded by a sudden drop in export sales towards the end of the year.

Exports Continue Declining as Political Instability in MENA Persists

Political instability in parts of the Middle East and North Africa region continued into 2016

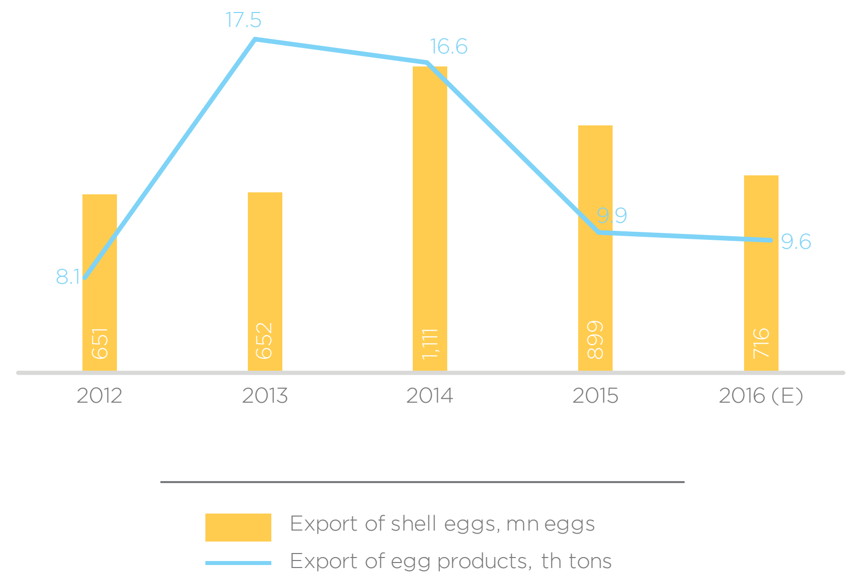
[1] Excluding the Autonomous Republic of Crimea, the city of Sevastopol and the military conflict zone in Eastern Ukraine.

Ukrainian Egg Producer Prices, UAH per 10 eggs:



Source: Pro-Consulting

Exports of Eggs and Egg Products from Ukraine[1]:



Source: State Statistics Service of Ukraine, Pro-Consulting further depressing Ukrainian egg exports to the region, which contracted almost by half compared to 2014.

Apart from causing a loss of hard-currency revenues, reduced export sales are also putting considerable pressure on the home market and domestic egg prices as described above.

Major Ukrainian producers, with Avangardco IPL at the lead, have been actively exploring alternative export destinations to alleviate the country's excessive dependency on MENA as its largest export market.

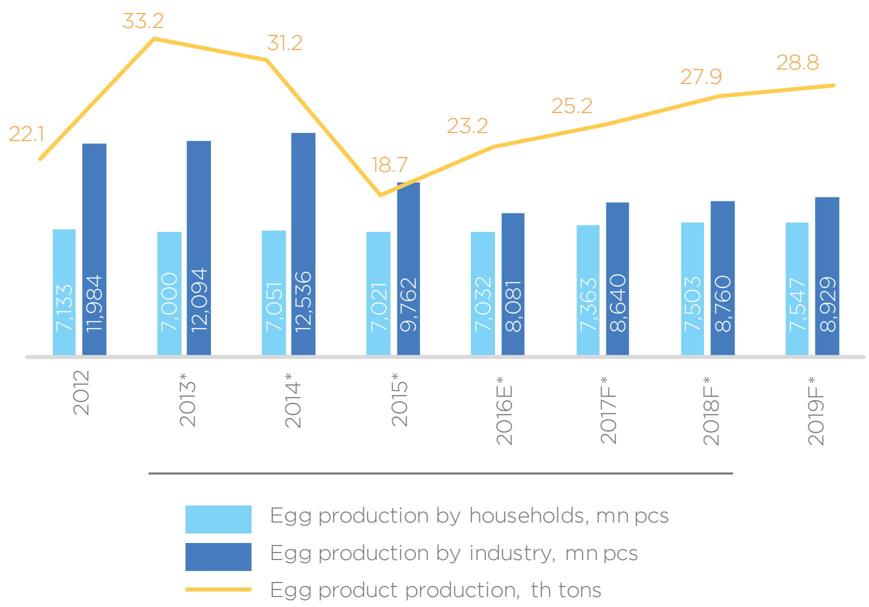
UKRAINE'S MARKET FOR EGG PRODUCTS

Producers Increase Egg Product Output to Mitigate Oversupply in Home Shell Egg Market while Exports Stay Sluggish except for EU

Egg Producers Increase Output of Egg Products to Protect Home Shell Egg Market from Oversupply

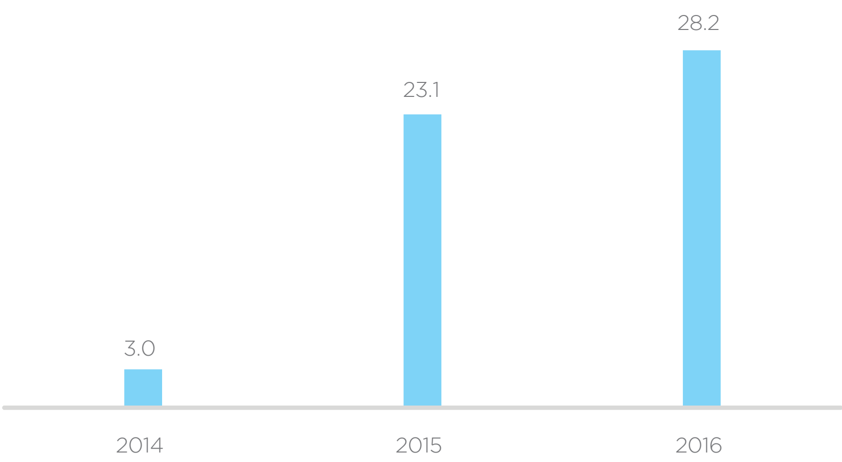
In 2016, Ukraine increased the production of egg products by 24% compared to the year before. Admittedly, most of this growth in egg processing volume resulted from mitigation strategies used by leading industrial egg producers including Avangardco IPL in response to oversupply situations in Ukraine's domestic shell egg market.

Production of Shell Eggs and Egg Products in Ukraine:



Source: State Statistics Service of Ukraine, Pro-Consulting

Ukrainian Egg Product Exports to the EU, USD mn :



Source: State Statistics Service of Ukraine, Pro-Consulting

Exports Stay Sluggish Overall except for EU

Overall exports of egg products stayed sluggish in 2016 compared to the year before except for trade with the EU. In value terms, Ukrainian exports of egg products to the European Union increased by 22% YOY.

According to the European Commission, Ukraine now ranks as the EU's largest third-country supplier of egg products.

Leading Ukrainian producers including Avangardco IPL are determined to expand egg product exports going forward by exploring new markets and further expanding trade with the EU. Apart from serving as a source of hard-currency revenues, they act as a cure helping heal the imperfections and imbalances of Ukraine's domestic shell egg market affected by consumer demand contraction.

GLOBAL MARKET FOR EGGS AND EGG PRODUCTS

Growth Expected to Resume in 2017

World Egg Trade Declines as Global Production Increases

In 2016, world production of eggs grew by 1.7% YOY reaching a total volume of 72.3mn tons. Global output of egg products increased by 2.5% YOY totalling 4,451 th tons.

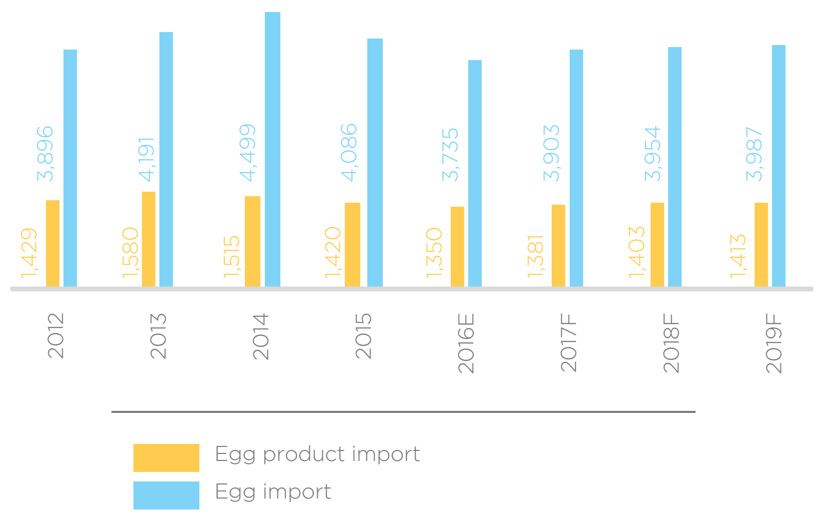
Expansion of domestic production was observed across all major egg-importing markets, which led to further contraction of global trade in both eggs and egg products. In value terms, global imports of shell eggs and egg products decreased by 9% YOY and 5% YOY respectively while import volumes contracted across all major importing markets.

Two Largest Global Markets Driving Decline in World Egg Trade

Two of the world's largest markets, namely the EU and MENA, were responsible for most of the decline in global egg trade during 2016.

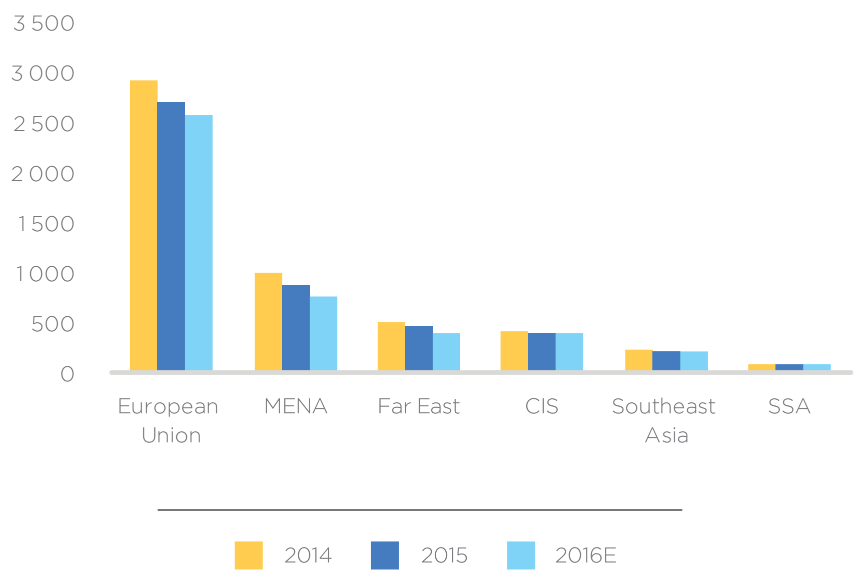
EU: In 2016, the European Union reduced imports of eggs and egg products by 5% YOY in value terms vs. 7% YOY in 2015. This was triggered by the eventual implementation of EU Council Directive 1999/74/EC

Global Trade in Eggs and Egg Products, USD mn:



Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

Import of Eggs and Egg Products by Key Importing Markets, USD mn:



Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

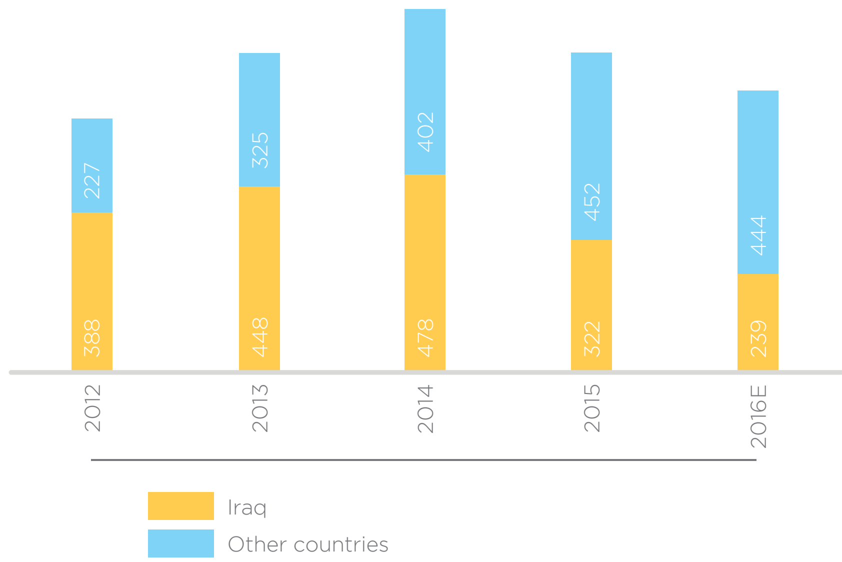
on the welfare of laying hens.

EU egg farmers were given 12 years to achieve compliance with the new Directive. During the transition period, while they were upgrading their operations to meet the new requirements, they substantially reduced production volume creating a shortage in the EU egg market, which was eagerly met by egg-exporting third countries. By 2016, most industrial egg farmers of the EU had largely completed the conversion and recovered their production volume. In 2016, total egg production in volume terms exceeded the 2012 volume by 13%. Trade between EU member states has contracted.

At the same time, the European Union has retained its trading volume as an exporter of egg products, especially dried ones. In 2015, the EU claimed 47% of such exports while in 2011 its share was 36%, which proves that the EU is strengthening its position as one of the world's largest exporters of egg powder.

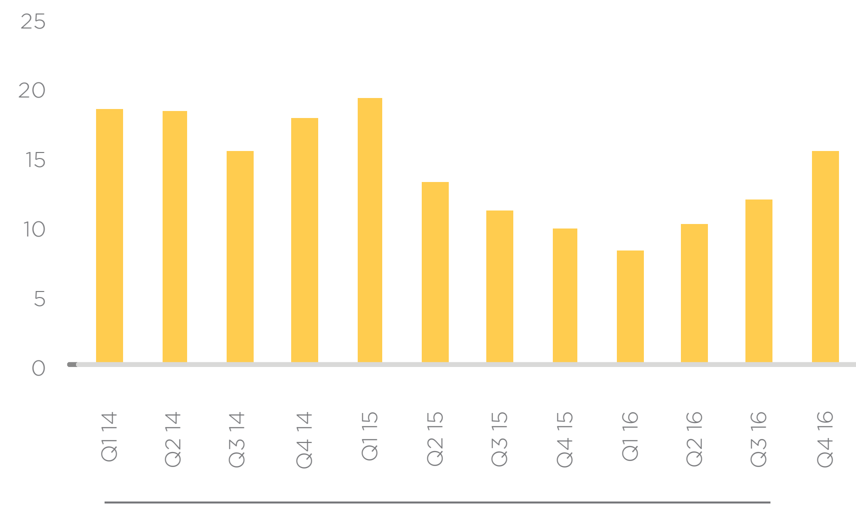
MENA: In 2016, the market of MENA continued demonstrating a steady decline in egg imports in value terms. Iraq, traditionally Ukraine's largest export market, reduced its egg imports by 26% in 2016 as compared to 2015

Egg Imports by Iraq vs. Other MENA Markets, USD mn:



Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

Us Dry Egg Product Exports, USD mn:



Source: WTO/UNCTAD International Trade Centre triggering a further decline in Ukrainian egg exports. Suffice it say that back in 2013 Iraq ranked second globally among egg-importing countries. This drop in the volume of imports is due to the ongoing war on ISIS that has engulfed Iraq and the higher risks affecting trade logistics with this part of the world.

South East Asia Also Reduces Imports

The market of South East Asia also reduced its imports of eggs and egg products by 18% in 2016 as compared to 2015.

This decline was mainly driven by Japan, the world's largest consumer of dried egg products reducing its imports.

US Recovers after Outbreaks of Bird Flu

In 2016, the US being the world's largest exporter of egg products, got back on a growth track following a decline in production volume due to outbreaks of avian influenza in 2015.

Most of this recovery, however, occurred towards the end of 2016. The US has returned to its traditional export markets being the Far East and South East Asia.

Outbreaks of Bird Flu in Different Regions Contribute to Global Decline in Egg Trade

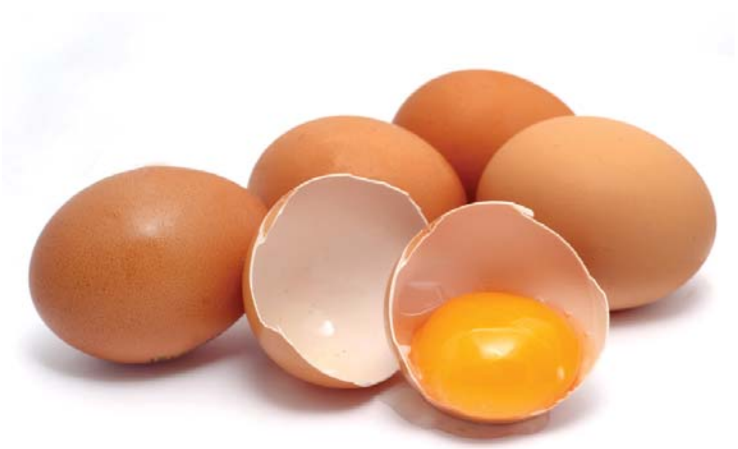
In 2016, outbreaks of avian influenza occurred in different parts of the world forcing producers to reduce their flock size to prevent the disease from spreading further.

Cases of bird flu were reported in many EU Member States, Taiwan, South Korea, Israel, India, Egypt and several other countries.

This situation forced many importing countries to impose bans on any poultry products from the affected regions, which, in its turn, contributed to overall contraction of the world egg market.

Growth Expected to Resume in 2017

Despite all the challenges posed by the developments of 2016, Avangardco IPL cautiously predicts a small revival in the global market for eggs and egg products in the short-term. The highest pace of recovery is to be expected in the market worst affected by or, to put it another way, mainly responsible for the recent decline in global trade being the Middle East and North Africa, Avangardco's largest export market.

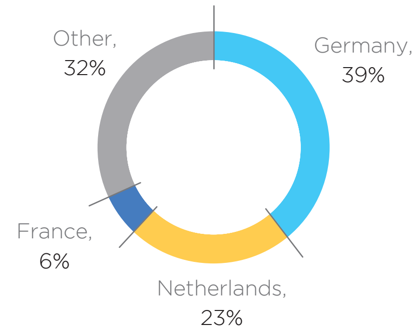


KEY SHELL EGG IMPORTERS

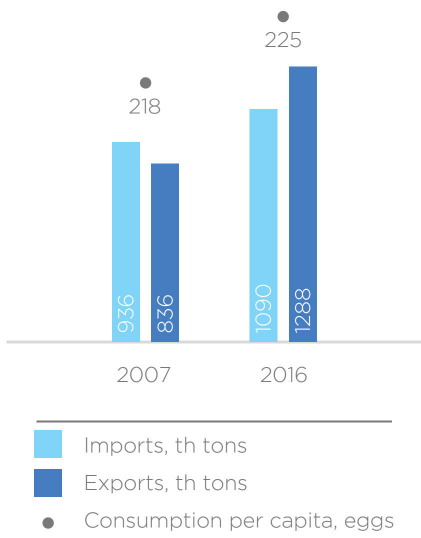
EU

Share of global imports - 47 %
Production - 7.6mn tons

Key Importers in the Region, %:



Key Metrics:



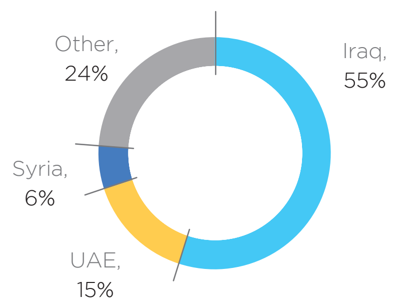
- High levels of economic development, flat population growth, high incomes and urbanization rates.
- EU egg demand almost fully satisfied by local production.
- EU-27 egg market fairly balanced with steady production volume.
- New breeding conditions banning standard battery cages under European Council Directive 1999/74/EC resulted in a temporarily decrease in shell egg production and increased imports. The situation gradually improved as European producers largely adjusted their production to the requirements of the Directive. As a result imports returned to the level of 2011.
- Most of the trade conducted intra-EU with relatively low volumes from beyond its borders.
- Import demand largely driven by demand for eggs for further processing.

Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

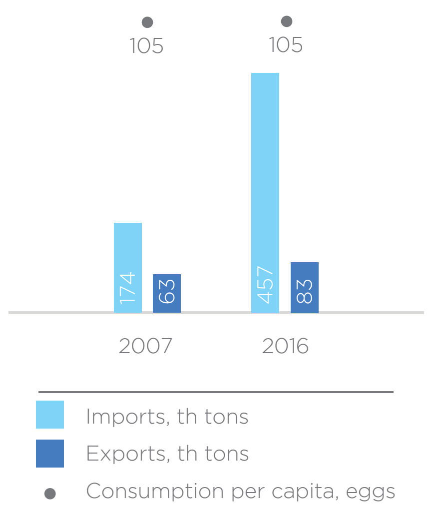
MENA

Share of global imports - 18 %
Production - 3.8mn tons

Key Importers in the Region, %:



Key Metrics:



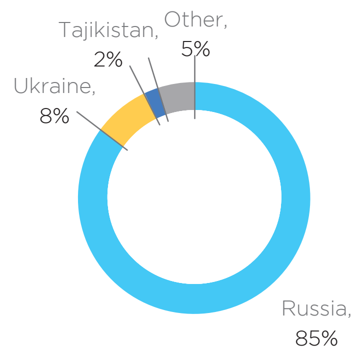
- MENA has huge oil reserves generating most income.
- High population growth; some countries have doubled population in the past 20 years.
- Middle class set to grow boosting purchasing power.
- MENA has changed dramatically in the past fifty years. Caloric intake has increased by 54% and protein intake by 57%. Protein intake stil lower than in developed countries.
- Lack of water resources constraining local agriculture and encouraging imports.
- Imports growing consistently with Turkey traditionally in first place among exporters to the region and expanding in recent years within increased imports from the European Union and Ukraine.
- A military conflict and political instability in 2015-2016 led to a partial closure of borders and significant complications of import procedures.

Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

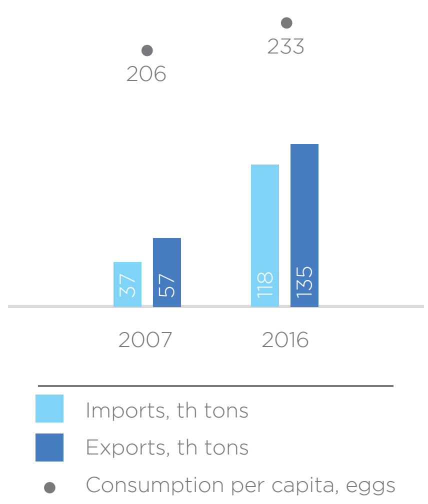
CIS

Share of global imports - 10 %
Production - 4.8mn tons

Key Importers in the Region, %:



Key Metrics:



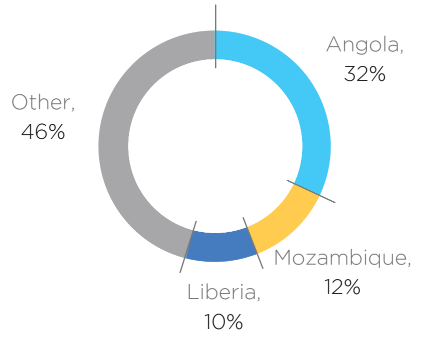
- Largest egg producers include Russia, Ukraine and Belarus.
- Traditionally high egg consumption encouraging growth of egg farming industry.
- Hatching eggs making up most egg imports as poultry sector grows.
- Eggs increasingly imported by countries of Central Asia (Kyrgyzstan and Tajikistan) and the Caucasus (Georgia, Armenia and Azerbaijan).
- Except for Ukraine and Belarus, all CIS countries are net importers of eggs.

Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

Sub-Saharan Africa

Share of global imports - 2 %
Production - 2.1mn tons

Key Importers in the Region, %:



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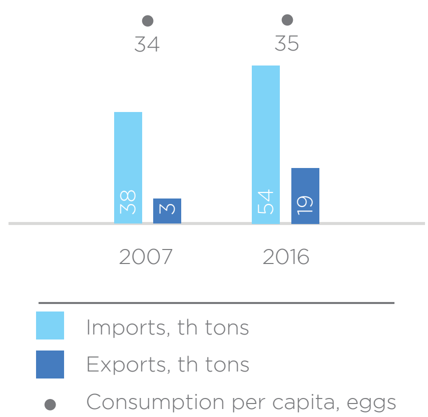


- Rapid population growth over the past 30 years (1980s – 483 million people, now –over 1 billion).
- High poverty levels keeping food consumption low.
- High dependency on grain imports constraining growth of local egg production.
- Reserves of natural resources (oil, metals, precious stones, etc.) attracting interest from BRICS investors, economic growth to encourage protein consumption, in particular eggs.
- Growth in the region expected to significantly outpace global economic growth according to the World Bank.
- Growing consumer demand to encourage food imports including eggs.
- Decline in imports due to a slowdown of the region's economy.

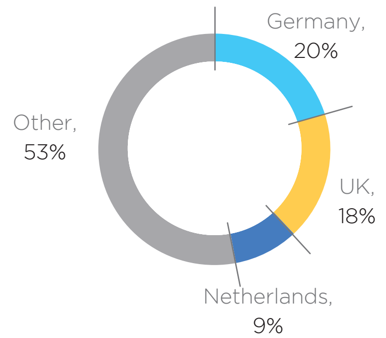
Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

KEY EGG PRODUCT IMPORTERS

EU

Share of global imports - 60 %

Key Importers in the Region, %:



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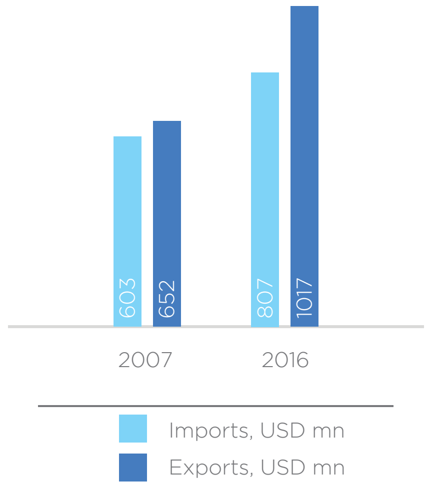


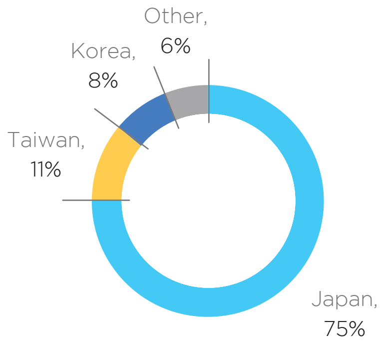
- European countries among the world's largest producers and consumers of egg products.
- In some EU countries more than half of all eggs produced turned into egg products.
- Most of the trade is intra-EU.
- Liquid egg products dominate imports as most of it takes place between EU member states.
- In the past several years, the share of exports of dry egg products outside the EU has been increasing. In 2016, the share of European exports of dry egg products to other countries amounted to 47%.

Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

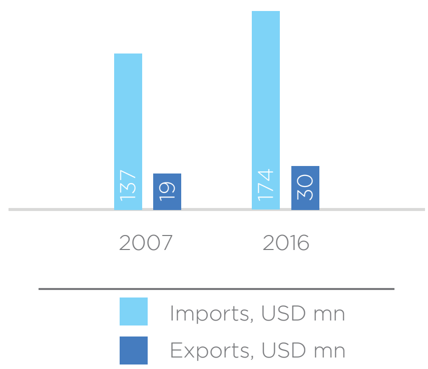
Far East

Share of global imports - 13 %

Key Importers in the Region, %:



Key Metrics:



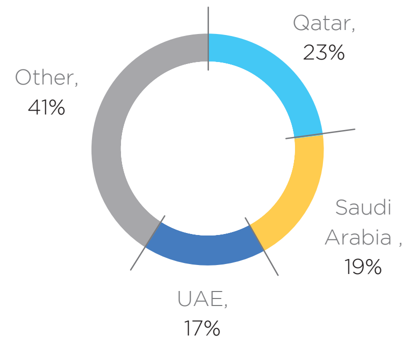
- A large population and high rates of economic development.
- Japan, a global and regional leader in egg product imports with a highly developed egg processing industry. Japan consumes more than 50% of all eggs produced in the country in the form of egg products. However, in 2016 Japan reduced its imports of egg products.
- The Far East region as a whole is a net importer of egg products with some countries more dependent on imports than others.
- Up to 73% of imported egg products are dried egg products.
- Consumer demand expanding steadily encouraging import growth as food-processing industry evolves.

Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

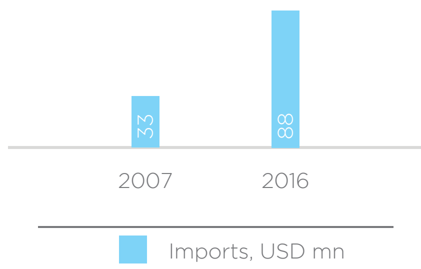
MENA

Share of global imports - 7 %

Key Importers in the Region, %:



Key Metrics:



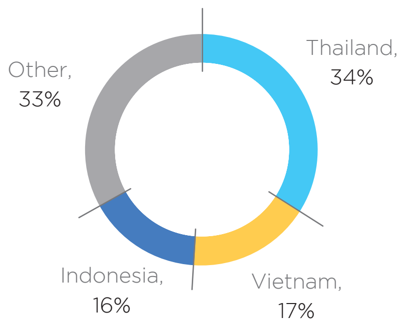
- MENA has the highest dependency on imported egg products in the world.
- Egg processing as an industry does not exist.
- Dry egg products take up nearly 50-60% of total egg product imports.
- Leading economies of the region represent its largest egg product importers.
- A military conflict and unstable political situation in 2015-2016 negatively affected imports to the region.

Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

South East Asia

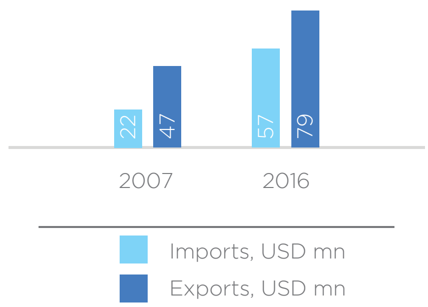
Share of global imports - 4 %

Key Importers in the Region, %:



- One of the world's highest population densities (nearly 29% of world population).
- Rapid economic growth over the past 30 years.
- Income growth encourages protein consumption growth.
- Egg processing practically non-existent (except India).
- All countries of the region are net importers of egg products except for India.

Key Metrics:



Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

MISSION, STRATEGIC VISION, GOALS

Our mission is to promote public health by giving consumers access to affordable, healthy and safe animal proteins globally

Avangardco IPL focus areas are:

- Improving product quality;
- Doing business in line with global best practices;
- Combining socially and environmentally responsible business practices.

Avangardco IPL strategic vision is to become the world's number 1 producer of eggs and egg products. We aim to maintain leading positions in Ukraine and earn international recognition through high product quality and advanced business practices.

Our Goals:

Increase Production Efficiency

We strive to optimise the use of production capacity and increase production efficiency by utilising new poultry farms while modernising existing assets and adopting modern agricultural technologies.

Diversify Sales to Maximize Profits

- Retain leading positions in the domestic market through high product quality and ability to supply large product volumes.
- Continue increasing product sales through higher-margin channels by promoting business with local and national supermarket chains, introducing new client loyalty programmes and establishing contacts with transnational FMCG companies operating in Ukraine.
- Increase the presence of branded products under the Kvochka umbrella brand in supermarket chains and other retail stores throughout Ukraine by implementing brand recognition programmes and balanced pricing policies.

Focus Efforts on Increasing Export of Eggs and Dry Egg Products

- Diversify export sales by further developing exports to the EU, MENA, Africa, Asia and the CIS.
- Strengthen positions in the aforementioned markets to become a leading supplier of eggs and egg products.
- Attract new clients in new markets and regain positions in MENA as soon as the situation in the region allows.

Maintain High Product Quality

- Avangardco has introduced modern technologies at its production facilities in order to maintain high product quality. At the same time, vertical integration implies that we can exercise strict quality controls at all stages of production.
- Receive certification to export shell eggs of class "A" to the EU.
- Have Chornobaivske poultry complex certified to ISO 22000:2005 (Food safety management system).

Pursue Global Best Business Practices

The company strives to establish and maintain long-term relations with all key stakeholders. In addition to developing production, sales and pricing, this task envisages significant investment in staff training and new methods of creating strategic value for our partners.

PERFORMANCE REVIEW: DOMESTIC OPERATIONS

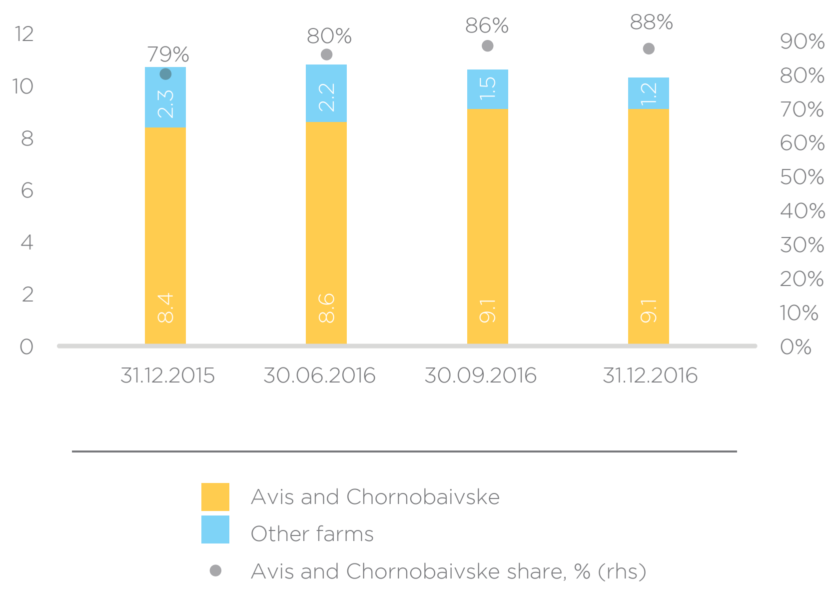
Shell Egg Segment

Flock Consolidation Continues in Response to Further Home Market Contraction

In 2016, shell egg consumption in Ukraine's home market continued to decline reaching a new low of 256 eggs per capita or 10,923mn eggs for the whole year.

Industrial egg production dropped by 17.2% YOY in 2016 while household production only edged up by an indiscernible 0.16% YOY In 2015, both industrial and household production declined by 22% YOY and 0.4% YOY respectively. So, what's been happening is not a market redistribution between industry and households, it's a net contraction, which suggests that income pressures have grown so strong that families increasingly cut back on or altogether abandon animal proteins from their diets. In times of economic growth, reduction in egg consumption could point to the contrary suggesting that families are getting wealthier but only if this is concurrent with a commensurate increase in the consumption of more expensive animal proteins, e.g. poultry, pork and beef, which, unfortunately, is not the case with Ukraine at this critical juncture.

Laying Flock, mn hens :



In 2016, most Ukrainian industrial producers were struggling to survive and, for better or worse, many did not. The situation came to a head during Q2 and Q3 when a seasonal surge in household production coincided with a sudden and very painful drop in export sales triggered by the continuing military conflict in MENA, one of the key export markets for Ukrainian egg producers.

Unlike most industrial egg producers, both still surviving and already defunct, Avangardco IPL is particularly resilient to price shocks. Due to its vertically integrated business model, whenever the domestic egg market becomes oversupplied, usually due to uncontrolled overproduction by households, Avangardco IPL has the unique capability of venting off excessive volume from the market by processing more shell eggs into egg powder, which has a significantly longer shelf life, and/or increasing shell egg exports.

Those safety valves, however, also have their limitations. During two consecutive quarters of 2016 - Q2 and Q3 - the market was so grossly oversupplied that Avangardco IPL had to sell shell eggs in Ukraine's home market at a loss.

Another ace up its sleeve, also unavailable to competition, is Avangardco's ability to concentrate production at the company's most operationally efficient and cost-effective enterprises, namely the company's vertically integrated megafarms of Avis and Chornobaivske - the twin poultry complexes being among the largest industrial egg farms in all of Eurasia, also boasting of some of the world's highest rates of operational efficiency and cost effectiveness.

Faced with a series of severe price shocks during 2016, Avangardco IPL decided to concentrate a still higher proportion of its production at Avis and Chornobaivske increasing their share of the company's laying flock to 88%.

Sales through Retail Chains Reach 60% of Total Sales for the First Time

In 2016, Avangardco IPL continued implementing its long-term strategy aimed at increasing the share of sales made through more profitable, more reliable, predictable and less risky sales channels.

The company has been consistently pursuing this strategy for several years already. It consists of three core elements or activities and seeks to increase three components of company sales:

- Increase the share of sales made through retail chains in the home market;
- Increase the share of exports in total sales;
- Increase sales of branded shell eggs via all sales channels.

In its early days, the company was selling all its eggs through just one channel, middlemen also known as wholesalers whose business it is to buy eggs from the likes of Avangard and resell them to end consumers at a profit at traditional outdoor farmers' markets being at that time pretty much the only place where eggs were sold in the mass market.

This distribution channel, however, is fraught with risks and uncertainties. Having to sell through an army of small traders has always acted as a check on Avangard's ability to predict demand and forecast sales, which becomes a critical constraint in times of crisis.

In 2009, Avangard introduced to the supermarket shelves the traditional farmers' market mode of buying eggs offering for the first time the option of buying loose eggs, i.e. as many eggs as a buyer's budget accommodated rather than a fixed quantity on a tray.

Over the years, Avangardco IPL has built solid business relationships with Ukraine's leading retail chains:

- ATB[1]
- Fozzy[1]
- Auchan[1]
- Novus Ukraine[1]
- Velyka Kishenya[1]
- Eko market[1]
- Karavan[1]
- Tavria V[1]
- MegaMarket
- Billa
- Pakko

- Brusnichka
- Alliance Market

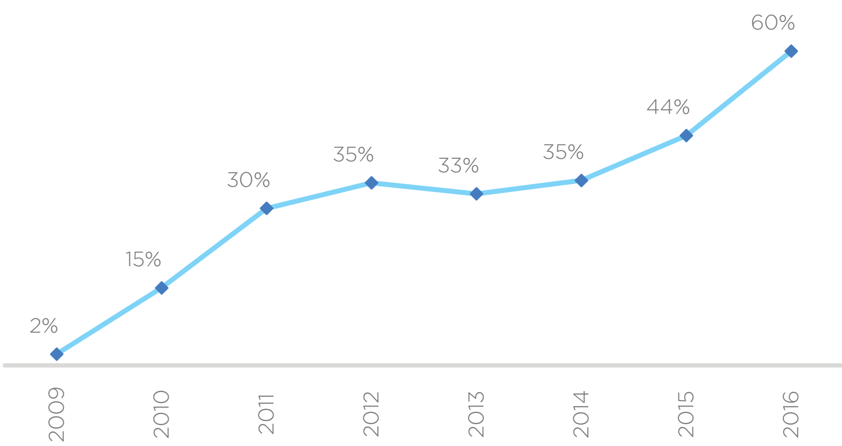
In its first year of trading through supermarket chains, this channel accounted for a mere 2% of total shell egg sales. In 2016, sales through retail chains reached 60% of total shell egg sales.

Sales of Avangardco's retail brand of Kvochka also increased as a percentage of total shell egg sales from 4% of total shell egg sales in 2015 to 8% in 2016.

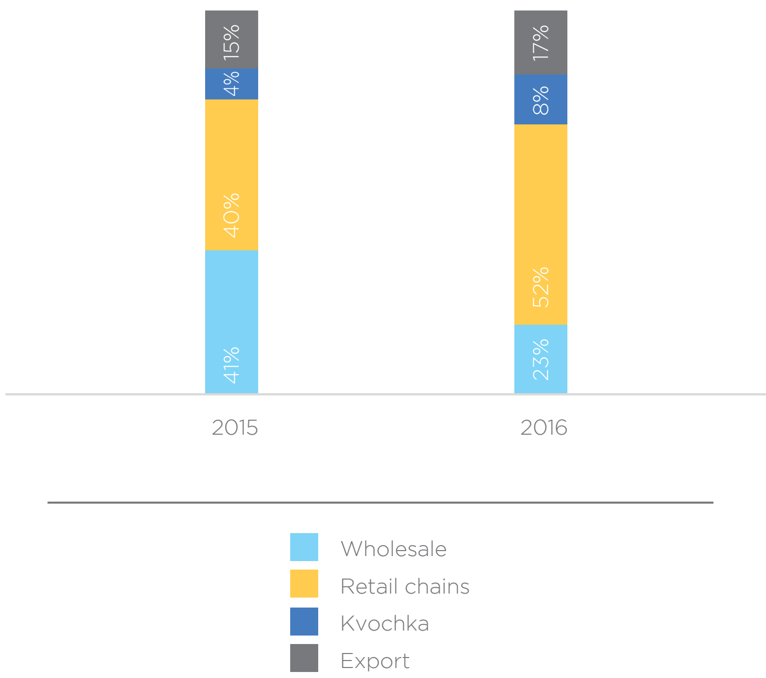
Avangardco IPL remains strongly committed to promoting its business partnerships with Ukraine's leading retailers going forward. In these difficult economic circumstances, we are working together with supermarket chains to restore pricing stability to Ukraine's egg market, mitigate seasonal demand fluctuations and maintain consistent supply in the market.

[1] Top-10 food retailers by total sales area in Ukraine in 2016. Rating by GT Partners Ukraine.

Evolution of Sales through Retail Chains, % of Total Shell Egg Sales:



Shell Egg Sales Structure by Volume,%:



Cautious Optimism Going Forward

In 2016, Ukraine's total egg production lost a further 9.9% YOY and even though the rate of decline returned to single-digit territory compared to 14.3% the year before it serves as evidence that total demand contraction continued into 2016.

In 2016 industrial egg output decreased by 17.2% YOY. Avangardco IPL reduced its production by 27% YOY to 2.5bn eggs while sales of shell eggs declined by 46% YOY to 1.5bn eggs. This number should be viewed in its proper context, however, to enable users to draw meaningful conclusions. It sounds almost lethal unless you consider the fact that most of this reduction in sales is due to a significantly larger proportion of egg output processed into dry egg products rather than sold as shell eggs. In 2016, Avangard increased processing of shell eggs by 35% YOY to 1.0bn eggs.

Shell Egg Segment. Key Operational Figures:

	Units	2015	2016	Change
Total Production	Units (mn)	3,434	2,496	(27%)
Processing	Units (mn)	770	1,039	35%
Sales	Units (mn)	2,798	1,515	(46%)
Export	Units (mn)	421	252	(40%)
Average Sales Price	UAH (excl. VAT)	1.22	1.35	11%

Amid all these negative developments there's a glimmer of hope from the first signs of economic recovery that started in 2016. GDP decline has finally turned to growth and while there's a lot of catching up to do consumer demand is already reacting positively along with the volume of retail trade as discussed in the macroeconomic section of this report.

Closer to home, domestic egg prices following two quarters of record lows started to grow again in Q4 2016. In 2016, Avangardco IPL was able to raise its average selling price by 11% YOY to UAH 1.35 per egg excluding VAT.

Most economists agree that the economic recovery that started in 2016 will continue into 2017 and beyond and boost consumer demand in general and demand for eggs in particular.

Shell Egg Exports Decline Further as Instability in MENA Persists

On the export front, Ukraine suffered a further loss of shell egg export volume as trade with MENA remained obstructed by the war on ISIS that has engulfed Iraq, once Ukraine's largest buyer of shell eggs, and Syria, formerly an important logistical hub for trade with the Middle East.

As a result, Ukrainian shell egg exports contracted by a further 20.3% YOY in volume terms. Avangardco IPL had to reduce export sales by 40% YOY to 252mn eggs.

Exporting shell eggs has its natural logistical constraints due to perishability. Potential markets must lie close enough to the exporting country, not farther than 10 days of delivery time away.

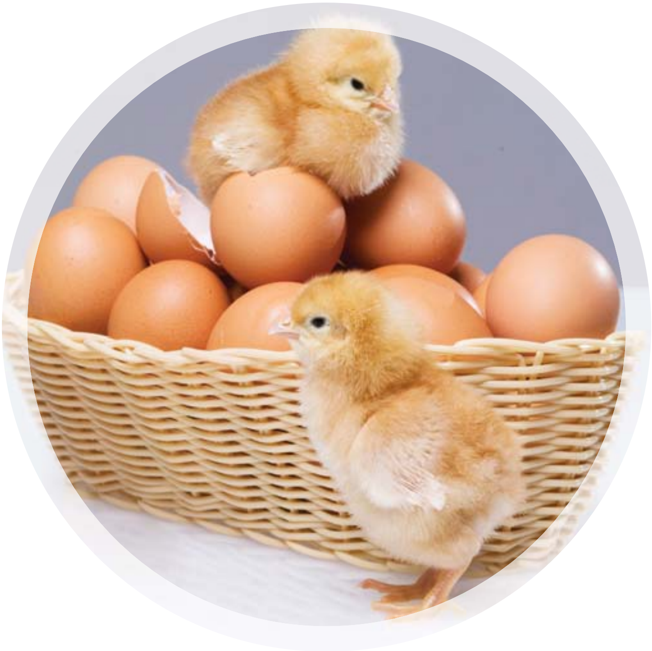
Egg Product Segment

Dry Egg Product Segment. Key Operational Figures:

	Units	2015	2016	Change
Dry egg product production	Tons	9,057	12,219	35%
Sales volume	Tons	11,445	9,028	(21%)
Export	Tons	8,929	8,249	(8%)
Average Sales Price	USD/Kg	5.66	5.57	(2%)

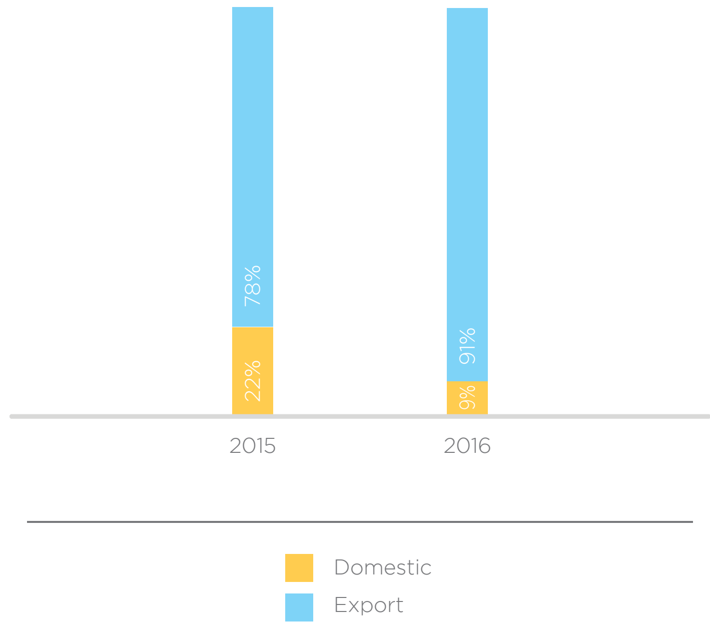
Production of Dry Egg Products Increases in Response to Oversupply in Domestic Shell Egg Market

In 2016, Avangardco IPL increased its output of dry egg products by 35% YOY to 12,219 tons. Unfortunately, however, the primary reason for that increase was not sales expansion. Rather, Avangardco IPL was forced to process a larger proportion of shell eggs produced in response to a critical oversupply situation created in Ukraine's domestic egg market by decreased exports coupled with uncontrolled overproduction by households.



Over the same period the company's egg product sales declined by 21% YOY to 9,028 tons. Egg product exports lost 8% YOY in 2016 and amounted to 8,249 tons mainly due to increased competition from EU producers that had finally completed the conversion necessary to comply with the requirements of the EU Council Directive on the Welfare of Laying Hens and increased production, and US producers that regained their market share, mainly in the Far East and South Pacific, following a series of outbreaks of avian influenza.

Egg Products Sales Structure by Volume, %:



Further Growth of Trade with EU and Expansion into South East Asia and Other Markets

We are not at all put off by the slight decline in our egg product exports to South East Asia. As the largest consumer of albumen, this market has a solid growth outlook going forward and we think we will be able to capitalise on our unrivalled cost advantages vis-a-vis competition while our quality is already consistent with that market's high expectations as is the case with the European Union.

Our exports of egg products to the EU continued to grow in 2016 reaching 57% of total egg powder exports. In 2016, we sold egg products to 16 countries all over the globe and there are more country markets in the pipeline. We are also actively exploring new markets to expand our export geographies further.

FINANCIAL RESULTS OVERVIEW

Key Financial Highlights:

	Units	2015	2016	Change
Consolidated Revenue	USD '000	229,924	191,304	(17%)
Cost of Sales	USD '000	209,190	175,875	(16%)
Gross Profit	USD '000	22,125	13,197	(40%)
Gross Profit Margin	%	10%	7%	(3 p.p.)
Operating Profit/(Loss)	USD '000	(87,104)	(14,880)	-
Operating Margin	%	-	-	-
EBITDA	USD '000	(1,417)	1,486	-
EBITDA Margin	%	-	1%	-
Net Profit/(Loss)	USD '000	(158,390)	(56,636)	-

In 2016, Avangardco IPL was trading in grain purchased from an affiliate of Ukrlandfarming PLC at market rates. This was reflected in the 'Other activities' segment. Since these operations are of a technical nature and have a minimum margin, they do not affect Avangardco's operating or net profit.

Key Financial Highlights Excluding Grain Trading :

	Units	2015	Grain trading in 2016	Consolidated financials excluding grain trading in 2016	Change YOY excluding grain trading
Consolidated Revenue	USD '000	229,924	50,168	141,136	(39%)
Cost of sales	USD '000	209,190	47,847	128,028	(39%)
Gross Profit	USD '000	22,125	2,321	10,876	(51%)
Gross Profit Margin	%	10%	5%	8%	(2 p.p.)
Distribution expenses	USD '000	10,773	2,470	6,088	(43%)
Operating Profit/(Loss)	USD '000	(87,104)	(149)	(14,731)	-
Operating Margin	%	-	-	-	-
EBITDA	USD '000	(1,417)	-	1,635	-
EBITDA Margin	%	-	-	1%	-
Net Profit/(Loss)	US$ '000	(158,390)	-	(56,487)	-

FINANCIAL PERFORMANCE: OPERATIONS

Sales Revenue Declined as Market Demand Contracted at Home and Abroad

Sales Revenue Decreases under Pressure from Home Demand Contraction, Loss of Exports and Continued Devaluation

In 2016, Avangardco IPL suffered a further loss of sales revenue due to continued contraction of Ukraine's home market and adverse developments in its key export market being the Middle East and North Africa.

Thus, in 2016, the company's consolidated revenue decreased by 17% YoY to USD 191.3mn. This was due to:

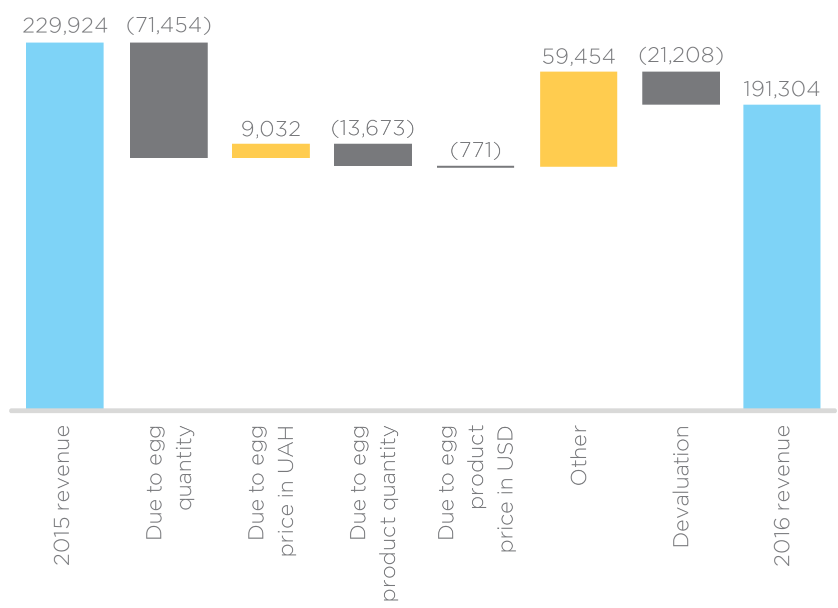
Negative influence:

- 46% YoY and 21% YoY decrease in sales of shell eggs and dry egg products respectively.
- 2% YoY decrease in the average sales price of egg products in US dollar terms.
- 17% YoY devaluation of the Ukrainian Hryvnia against the US dollar.

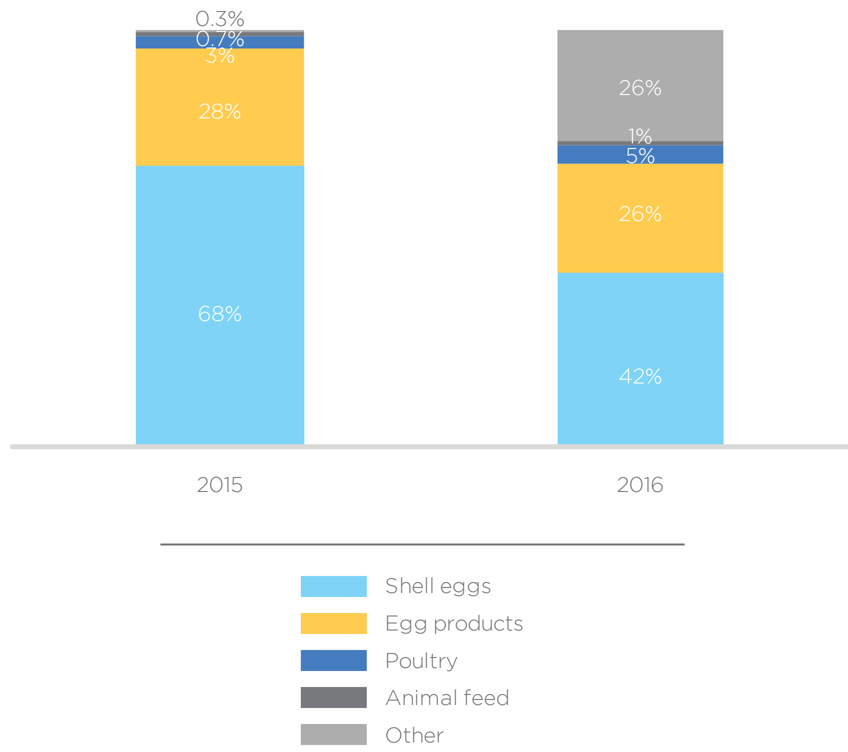
Positive influence:

- 11% YoY increase in the average sales price of shell eggs in the Ukrainian Hryvnia.

Revenue bridge, USD th:



Sales Revenue by Segment, %:



- Increase in other income from revenue generated by grain trading operations of USD 50.2mn.

Sales revenue dropped in both core segments of the company's operations - shell eggs and dry egg products, by 49% YOY to USD 79.8mn and 22% YOY to 50.3mn respectively. The reduction in shell egg sales was chiefly caused by continued home market contraction while egg product sales dropped due to further decline in exports.

Exports Decline as Military Conflict in MENA Continues while Outbreaks of Avian Influenza in Ukraine Outside Avangard Cause Several Importing Countries to Ban Ukrainian Eggs

In 2016, revenue from exports of shell eggs and egg products declined by 30% YOY to USD 66.7mn and amounted to 47% of consolidated revenues excluding grain trading operations.

Sales to the EU and MENA generated 88% of export revenue[1]

The top 5 markets where we export shell eggs continue to be Iraq, UAE, Moldova, Syria and Turkey.

Our top 5 markets for the export of egg products include Denmark, Jordan, Pakistan, Indonesia and Thailand.

Outbreaks of bird flu in some parts of Ukraine caused several major importing countries to ban Ukrainian poultry and poultry products including eggs. Importantly, Avangardco farms were not affected but it was no luck. We have put in place solid biological security defences that protect our flock from disease and the outbreaks were registered dozens if not hundreds of miles away from the nearest Avangard egg farm. Unfortunately, the import bans remain in force as this report goes to print[2]

The countries that have imposed import bans include some of the company's key exports markets:

I. Iraq (20% of export proceeds[1]) and Jordan (8% of export proceeds[1]) introduced a temporary import ban on poultry products from across Ukraine.

II. The UAE (7% of export proceeds[1]) and the EU (40% of export proceeds[1]) have banned imports only from the regions where avian influenza was detected.

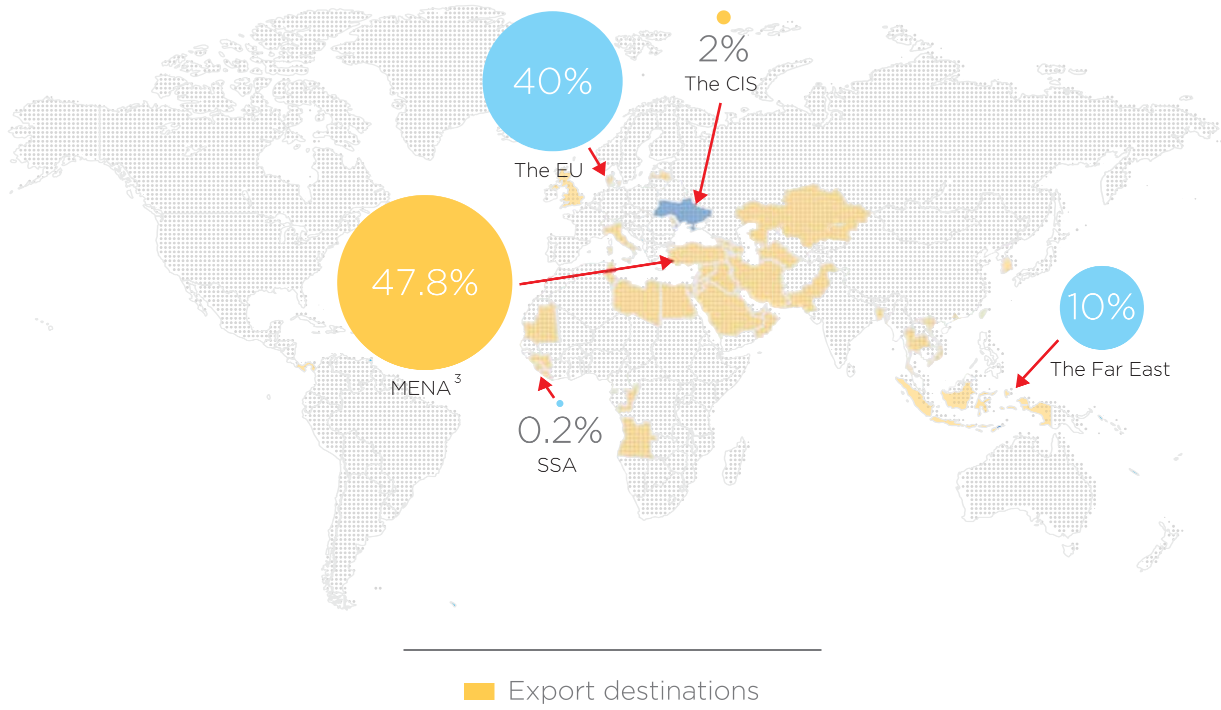
Avangardco can continue to export its products to the UAE and EU, and to its other export regions which have not banned imports from Ukraine.

[1] Export proceeds from sales of eggs and egg products.

[2] As at 16 March 2017, Ukraine's State Service for Food Safety and Consumer Protection published a list of countries that imposed temporary restrictions on poultry and poultry product exports from Ukraine due to avian influenza. Among them, Iraq, China, Qatar, Yemen, Jordan that introduced a temporary import ban on poultry products from across Ukraine. Hong Kong, the EU, Saudi Arabia and the UAE only banned exports from the affected regions of Ukraine.

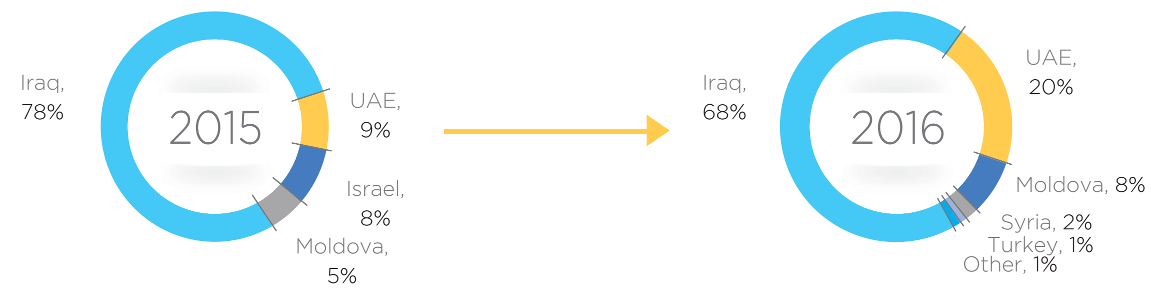
[3] Including Turkey and Pakistan

Export Geographies, % of Revenue from Exports of Shell Eggs and Egg Products:

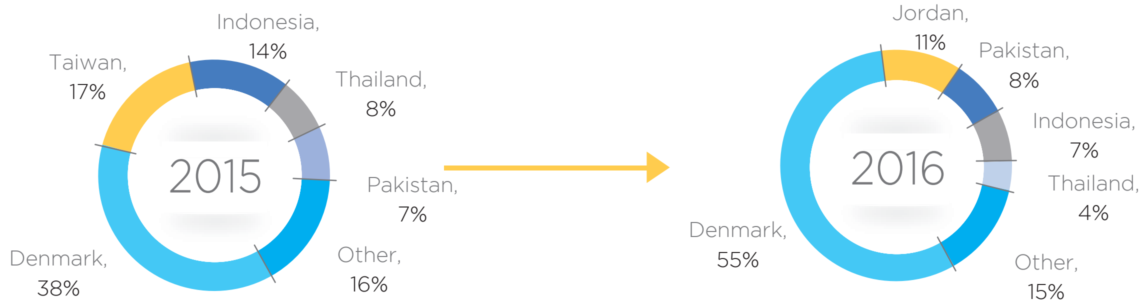


Export Country Markets with Shares:

Shell Eggs:



Egg Products:



Unprecedented Oversupply in Home Market Forced Avangard to Sell at a Loss during Q2 and Q3 2016

During Q2 and Q3 2016, the seasonal peak in household production coincided with weaker consumer demand and a dramatic reduction in export sales due to the military conflict in the Middle East.

This caused the price to plummet a lot more abruptly and steeply than the year before catching even the most advanced and efficient industry players off guard, including Avangard, and forcing the company to sell below cost.

Even though the company has several effective safeguards against such situations, e.g. processing excessive shell eggs into dry egg products, exporting more eggs or putting excessive volume into long-term storage, but they all have their reasonable limitations.

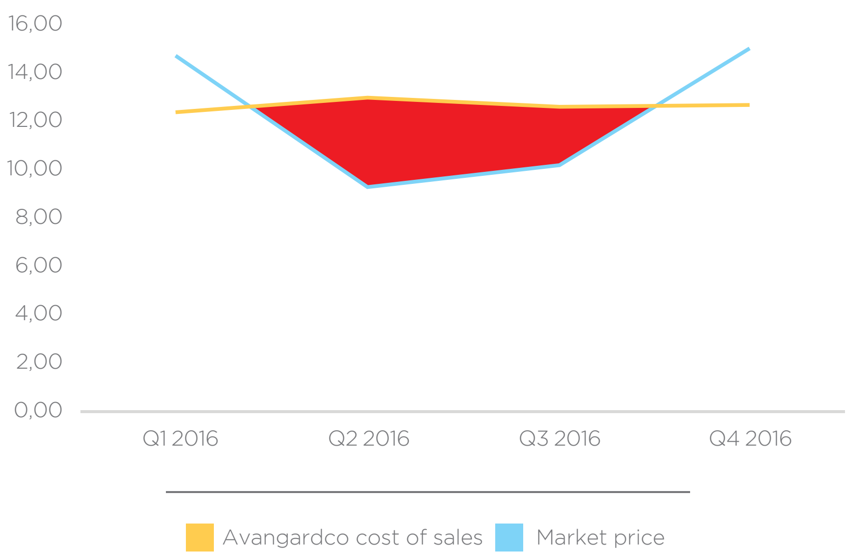
This dramatic drop in egg prices couldn't help adversely affecting our annual sales. It also put considerable pressure on the company's margin performance.

Margin Thins under Pressure from Price Erosion and Cost Inflation

The price erosion in Ukraine's shell egg market was further

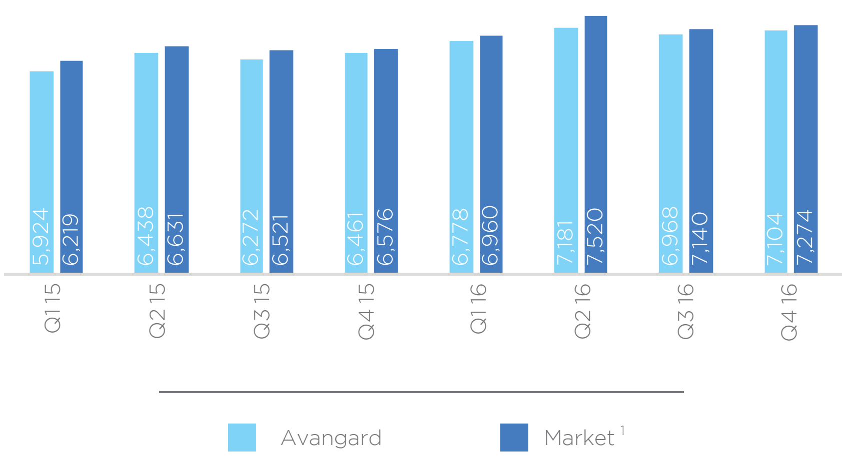
[1] Avangard standard recipe by volume.

Shell Egg Price Dynamics in Ukraine's Home Market during 2016 by Quarter, UAH per 10 eggs:



Source: Pro-Consulting, company data

Average Animal Feed Price, UAH per ton:



aggravated by continued cost inflation affecting the company's key cost driver being animal feed. Another contributing factor was a series of increases in utility rates.

In 2016, cost per egg rose by 14% YOY to UAH 1.26.

In US dollar terms, the cost of sales of shell eggs fell 4% YoY to 0.049 per egg due to devaluation of the Ukrainian hryvnia.

Cost per kg of egg products in US dollar terms fell 1% YoY to 4.58 driven by the decreased cost of eggs used for processing in USD terms.

As a result, in 2016, the company incurred a loss from operating activities of USD 14.9mn. On top of the shortfall in sales during Q2 and Q3 and cost inflation the company's profitability was also impacted by provisions for doubtful debts of USD 18.6mn and a reduction in income from the special VAT regime for agricultural producers.

Cost of Sales of Shell Eggs by Component, UAH per egg :

	Q3 2016	Q4 2016	%
Feed [2]	0.871	0.888	2%
Grain	*0.192*	*0.195*	*2%*
Oil cake	*0.489*	*0.498*	*2%*
Other	*0.190*	*0.195*	*3%*
Labour	0.061	0.062	2%
Depreciation	0.066	0.066	0%
Packing, veterinary medicines	0.104	0.101	(3%)
Other	0.162	0.152	(6%)
Total	1.264	1.269	0.4%

[2] In volume terms, standard recipe of feed consists of grain (48%), oil cake (48%) and other ingredients (4%).

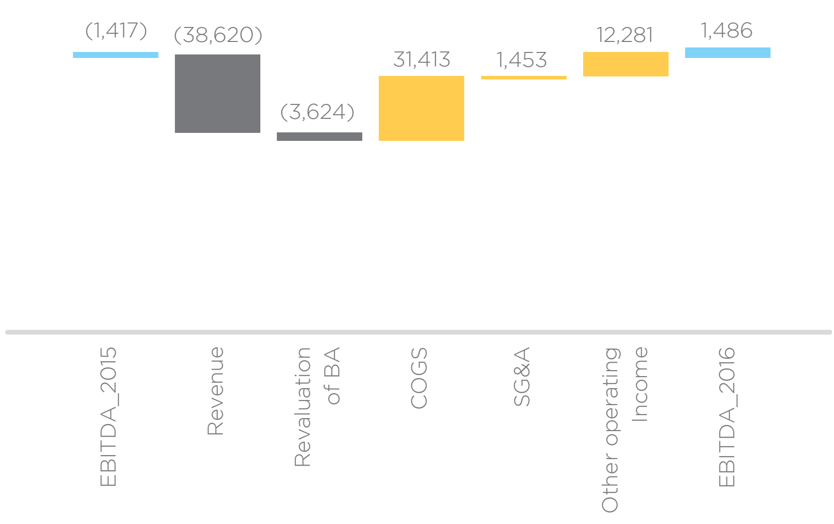
EBITDA Turns Positive while Net Loss Shrinks to a Third of Last Year's

Despite the decline in consolidated revenue of 17% YOY and a loss recognised on revaluation of biological assets due to a reduction in laying flock, EBITDA turned positive. Yes, it may be a small number compared to the company's normal EBITDA in the hundreds of millions of US dollars, a mere USD 1.5mn, but it's a crucial victory giving hope that the company has started to recover from the many and heavy shocks it has suffered over the past three years.

The company has also survived a major shock of asset loss caused by the military conflict in Eastern Ukraine and the annexation of Crimea. This shock mostly played out in 2014 and 2015 when Avangardco IPL had to recognise heavy losses that forced the company's bottom line way into the red.

We closed 2016 with a net loss of USD 56.6mn, which was not good but compared to USD 158.4mn in 2015 it came as welcome news.

EBITDA Bridge between 2015 and 2016, USD th:



Pressure on Cash Somewhat Relieved by Streamlining Working Capital, Lower Maintenance Capex and Reduced Debt Servicing

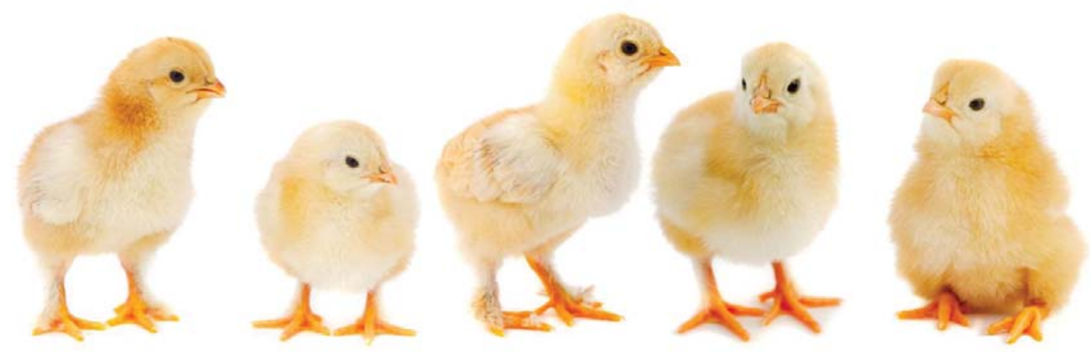
The company's net working capital improved slightly in 2016 freeing up USD 21mn in cash. Admittedly, this streamlining was chiefly due to downscaling but in our current cash-tight circumstances this may be viewed as a positive development, especially given the fact that we closed the year with a net cash outflow from operations of USD 3.3mn.

Cash outflow from investment activities also decreased because with a reduced asset base the company is now having to invest less in maintenance CAPEX. In 2016, investment cash outflow totalled USD 9.4mn.

The company has made considerable efforts over the past three years to extend the maturity of its outstanding debt obligations and deleverage where possible. This, in part, has resulted in a reduced cash outflow from financing activities.

Highlights of Cash Flow Statement:

USD'000	2015	2016
Net cash generated from/ (used in) operating activities	1,215	(3,255)
Net cash generated from/ (used in) investing activities	(35,258)	(9,373)
Net cash generated from/ (used in) financing activities	(15,245)	(6,991)
Net increase/ (decrease) in cash	(49,288)	(19,619)
Cash at the end of the period	31,307	12,570



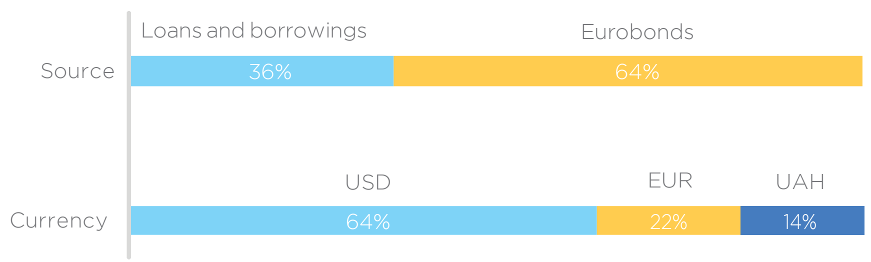
Debt Situation Remains Challenging as Liquidity Crisis Continues

Total debt rose to USD 344.1mn as a result of PIK payment accumulation. Net debt increased to USD 331.5mn.

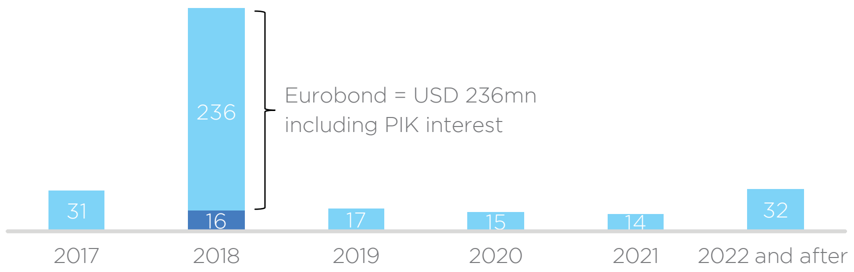
The debt portfolio mainly consists of Eurobonds, loans and borrowings. 64% of total debt is a Eurobond maturing in 2018.

86% of company debt is denominated in US dollars and Euros.

Debt Portfolio by Source and Currency, %:



Debt Servicing Schedule , USDmn :



Debt Portfolio Highlights, USD th:

	31.12.2015	31.09.2016	31.12.2016
Total Debt	336,354	345,253	344,076
Long-term loans	64,423	52,164	93,924
Current portion of long-term debt	19,015	31,418	31,135
Long-term finance lease (incl. VAT)	45	4	3
Bond liability	202,871	212,168	219,014
Short-term loans	50,000	49,499	-
Cash and cash equivalents	31,307	14,306	12,570
Net Debt	305,047	330,947	331,506

RISK MANAGEMENT

The economic recession triggered by the annexation of Crimea and effective occupation of parts of Donetsk and Lugansk Provinces has significantly increased most of the risks affecting our company's operations.

At the same, by 2016 most risks had already manifested themselves while organisations had largely thought of ways to adapt to the new and riskier environment or come up with strategies to mitigate their risk exposures.

While companies normally cannot control political or sovereign risk they can use mitigants to contain their exposure to market, financial and operational risk.

Admittedly, Ukraine is now considered a country with a high level of country risk over the continued military conflict in Eastern Ukraine and annexation of Crimea. And this is a risk we can hardly do much about, apart from doing our best to help our country recover.

Avangardco IPL has put in place a comprehensive risk management framework that enables us to identify, measure and effectively mitigate most risks, except those that are outside our control.

Risk category	Ability to manage the risk
Political and country	Limited
Market	Medium
Operational	Strong
Financial	Medium
Shareholder	Limited
Labour	Strong
Tax	Limited

Political and Country Risks

Ukraine remains a country with high political and economic risks. The deterioration of the political and economic situation and the devaluation of the national currency against other world currencies have impaired the country's ability to honour its external obligations. In the context of the continued political instability, political risk is one of the primary risk types.

The company operates in Ukraine, therefore the company's assets and operational activities are subject to risk in case of unfavourable changes in the political and economic situation in the country. The political crisis that started in 2014 spilt over into 2015 and continued into 2016.

Foreign direct investments dropped to an all-time low undermining currency stability further and exposing gross imbalances in Ukraine's balance of payments that FDIs traditionally helped offset in the past. As private capital inflows dried up donor investors remained the only source of foreign currency influx into the country other than the dwindling exports. The IMF and other donors, however, have not been quick to release funds because their programmes require that Ukraine meet certain prerequisites, i.e. implement deep and comprehensive reforms, in which the country has admittedly shown little progress. However, the military conflict in Eastern Ukraine remains a significant destabilizing factor.

Market Risk: Manifestation and Mitigation

Market risk has hit us hard from all sides:

- Seasonal demand fluctuations have grown more extreme as households faced with income loss increasingly switch to producing eggs within the household during the warm months of the year when homebred hens lay eggs forcing the price below break-even for industrial producers;
- Sales have declined due to demand contraction from both foreign and domestic customers;
- Cost of production has inflated as the price of forage grain being a global exchange-traded commodity adjusted for devaluation.

We have responded to it by:

- Downscaling operations to avoid overproduction;
- Processing more eggs into dry egg products and increasing the share of exports to counter oversupply in the home market;
- Reducing costs where possible, in part, by concentrating about 88% of our production at our highly efficient and cost-effective poultry complexes of Avis and Chornonaivske.

Operational Risk: Manifestation and Mitigation

In the past three years, the company's risk management system has been put to the test, especially on the operational side. To operate any kind of enterprise in a country affected by foreign military aggression is a challenge for most organisations, let alone one whose business involves farming live animals.

Operationally, a modern industrial egg farm is a very complex enterprise with multiple inputs, outputs and processes, most of which pose an operational risk. What is more, most of the inputs, the core manufacturing assets (laying hens) and the outputs are exposed to biological hazards. Feed, hens and eggs are potentially susceptible to disease. The core manufacturing assets are routinely retired upon reaching maximum laying age and replaced with young laying hens. Eggs are also perishable and must be stored in refrigerated conditions.

All these vulnerabilities need particularly strong defences to prevent the related operational risks from ever materialising.

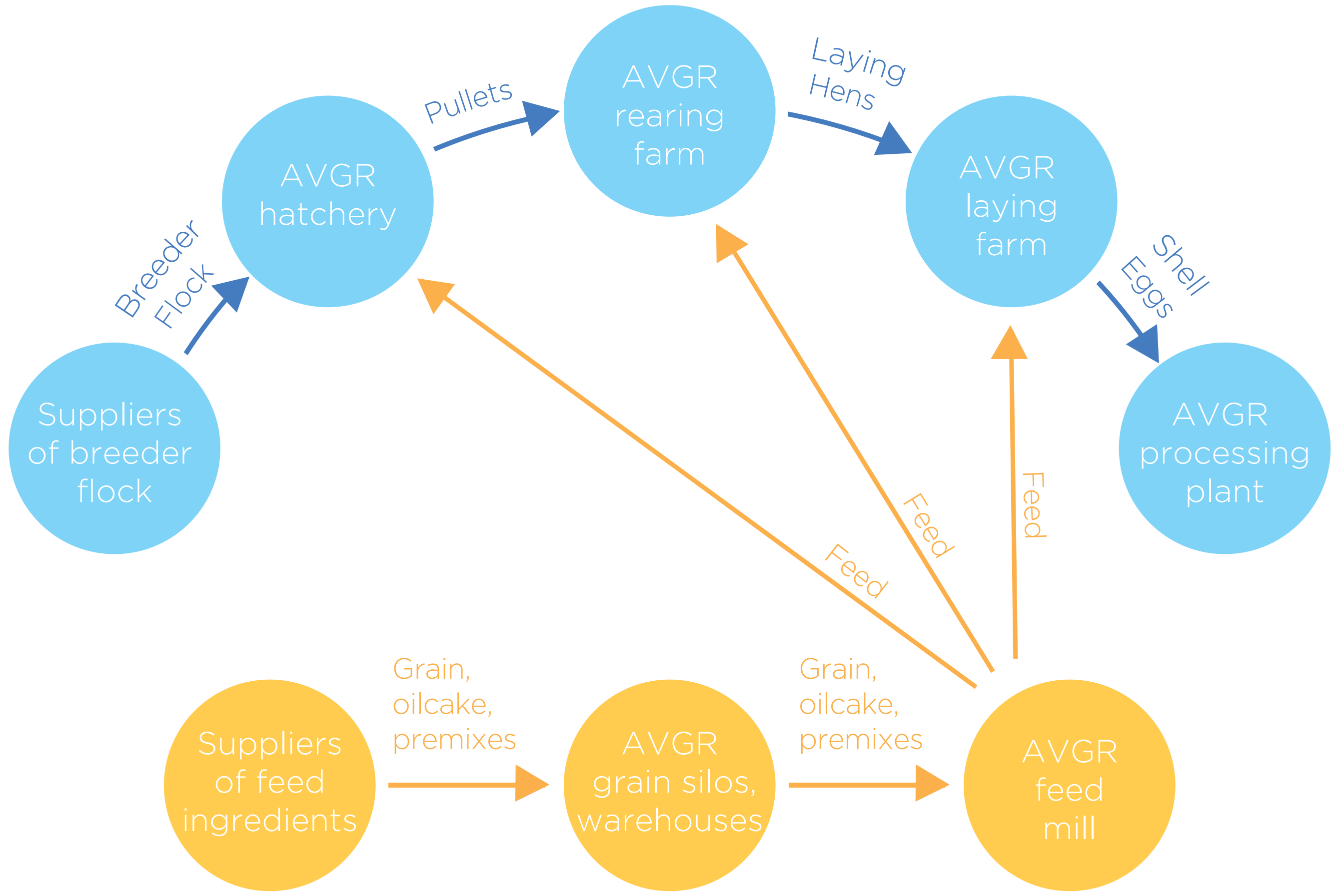
We strongly rely on our rigorous decontamination practices, regular flock vaccinations and other routine controls for protection against biological hazards by enforcing some of the world's most rigorous biosecurity standards both on our farms, at our hatcheries, feed mills and egg processing plant and in transit as we move inputs, hens and outputs from site to site.

Our biosecurity framework is very finely balanced and fine-tuned to run like clockwork. We know how to operate it in a stable and peaceful environment, we also know how to work it in critical situations. But, unfortunately, when a military conflict erupts in your country, when company assets get raided or taken over by armed terrorists it becomes impossible to operate them, ensure seamless supply of inputs and execute rigorous bio-security controls. It is for this reason that we have had to shut down our assets both in the conflict zone and around it.

On top of protecting us from biological hazards our bio-security framework supports a very important characteristic of

our quality management system certified to ISO 9001:2015, which is traceability. Traceability is highly valued by our customers, especially EU buyers of our dry egg products.

Avangardco's Traceability of Dry Egg Products



Our biosecurity defences were put to the real test in 2016 when outbreaks of avian influenza hit several regions of Ukraine including those where some of Avangardco's assets are located causing Ukraine's key importing countries to impose temporary bans on poultry imports from the affected regions of Ukraine or the whole country, including eggs.

Financial Risk: Manifestation and Mitigation

The company is not a financial institution and it uses financial tools as needed, to finance its operations rather than generate financial gains. Management takes all the necessary steps to ensure the company's stability in the current market conditions.

Financial risk serves as a litmus test exposing all the issues and challenges an organisation is facing commercially, operationally and financially. Material developments affecting an organisation's business always reflect on its financial risk position. It is fair to say that financial risk summarises the effect from all other types of risk, just as financial accounts neatly encapsulate an organisation's assets, liabilities, profitability, cash flows and equity position using the language of financial concepts and principles.

When sales drop or earnings decline, an organisation's financials deteriorate exposing gaps in liquidity, profitability, asset turnover or debt servicing capacity or all of those at the same time as has been the case with Avangardco IPL over the past three years.

Manifestations:

- The national currency of Ukraine has devalued three times since the onset of the crisis in 2014. Apart from a substantial translation effect from local currency denominated items the threefold devaluation has resulted in a commensurate hike in the price of animal feed being the company's largest cost component because feed is made from grain and grain is a global exchange-traded commodity whose price adjusts to its hard currency value almost immediately regardless of the depth of devaluation of a given national currency;
- Liquidity declined due to sales contraction aggravated by cost inflation constraining the company's ability to service and repay its debt. Importantly, it is liquidity rather than solvency problems that forced Avangarco IPL to seek maturity extensions from its key lenders. What is more, the central bank of Ukraine imposed tough restrictions on buying foreign currency, even for legitimate business needs, which put inexorable pressure on the company's debt-servicing capacity forcing the company to seek an extension from its major lenders, in the first place its Eurobond holders.

We have responded to those challenges by:

- Approaching our lenders, in the first place our Eurobond holders with restructuring proposals, which has secured us quite some breathing space in the face of debt-servicing payments and repayments inflated by the steep devaluation in local currency terms;
- Bringing our foreign-currency outlays to a minimum by reducing breeder flock purchasing as part of downscaling, cutting back on any foreign - currency-denominated expenditures and hoarding foreign currency proceeds from exports to naturally hedge our hard-currency obligations;
- As part of our debt restructuring, we have renegotiated the terms of our USD200mn Eurobond, representing a lion's share of our aggregate debt position, pushing off its final maturity date to 2018 and agreeing on adding a Paid-in-Kind coupon to alleviate the pressure on the company's cash position;
- We have also significantly increased sales through Ukraine's major retail chains as a percentage of our total shell egg sales. On the debit side, we have had to extend more trade credit but, at the same time, trade through established nationwide distribution organisations enables us to predict our sales and profitability a lot more accurately and manage our cash flows effectively to meet our obligations as they fall due.

Avangardco's Risk Management Matrix

Risk	Impact	Prevention or mitigation measures
POLITICAL RISK: ABILITY TO MITIGATE - LIMITED		
Loss of the country's territorial integrity	The loss of territories where Avangardco's assets are located may continue to force the company to suspend operations and close its farms, which could lead to significant material losses.	Suspend operations, evacuate movable assets.
Loss of assets	Unlawful seizure of private assets could cause material financial damage.	Pursue legal action and other avenues of asset recovery.
Risk of sovereign default	Sovereign default may limit Avangardco's ability to raise new debt.	Continue honouring debt obligations.
MARKET RISK: ABILITY TO MITIGATE - MEDIUM		
Seasonal demand fluctuations and egg production by households	Demand for eggs in Ukraine is subject to seasonal fluctuations. Households are active on the market in the spring and summer seasons; consequently, consumption of industrially produced eggs decreases during these periods. As eggs are a perishable product with a shelf life of up to 28 days, a drop in egg sales below production volume may cause losses.	Increase the share of shell egg output processed into egg powder, increase exports, use long-term egg storage facilities.
Decreasing demand for products and a decline in sales	Inability to sell eggs and egg products may lead to financial losses.	Downscale to match new demand level.
Cost increases	Feed prices are volatile; in Ukraine they depend on world market trends.	Reduce costs where possible, concentrate production at the most cost-effective enterprises, search for and lock in the best deals to buy inputs.
Counterparty risks	The instability of company contractors and key clients, including their inability to meet their contractual obligations in a timely manner, may lead to a decrease in sales volumes or financial losses and negatively impact future financial results.	In our case, the best mitigant against counterparty risk is our strategy to promote sales through Ukraine's top retail chains.

Avangardco's Risk Management Matrix (cont.)

Risk	Impact	Prevention or mitigation measures
	OPERATIONAL RISK: ABILITY TO MITIGATE - STRONG	
Disease outbreak among poultry population	Disease may cause material damage to the company's business.	In 2016, a series of outbreaks of bird flu hit Ukraine including regions where Avangardco IPL operates some of its assets. Our solid bio-security defences held out, and not a single one of our millions of birds was infected testifying to the strength of our bio-security safeguards.
Product contamination	In case of product contamination, the company may have to face product recalls and demands for compensation payments.	We work proactively to prevent any contamination from ever occurring.
	FINANCIAL RISK: ABILITY TO MITIGATE - MEDIUM	
National currency devaluation	Devaluation of the Ukrainian hryvnia against other world currencies has a negative impact on the company's financial results in US dollar terms, and also increases the cost of servicing debts denominated in foreign currency.	Increase exports, convert FX-denominated debt to local currency where possible
Interest rate changes	Possible fluctuations in the cost of financial instruments as a result of interest rate changes.	In order to minimise the risk of interest rate growth, in current economic conditions the company prefers to borrow at fixed interest rates. The cost of floating-rate loans is tied to EURIBOR. The company regularly analyses the sensitivity of key financial indicators to LIBOR and EURIBOR fluctuations.
Liquidity risk	Liquidity risk lies in the inability of the company to meet financial obligations.	Request longer trade credit from suppliers, offer customers incentives for paying early, renegotiate debt maturities with lenders.
	SHAREHOLDER RISK: ABILITY TO MITIGATE - MEDIUM	
Risks related to the majority shareholder	The majority shareholder in Avangardco also owns several other companies in the food, transport, real estate and financial	Avangardco continues to operate as a separate legal entity with its own treasury.

Risk	Impact	Prevention or mitigation measures
	industries. Deterioration of performance indicators of these companies may cause a negative perception of the company by external audiences.	The company follows best disclosure practices and avoids transactions with related parties, as confirmed by KPMG audits.
	LABOUR RISK: ABILITY TO MITIGATE - STRONG	
Strikes	Suspension of production due to strikes may lead to significant losses.	Avangardco employees are not unionized; all facilities operate under collective labour agreements. Avangardco creates favorable working conditions for its employees; salaries exceed the national average.
Employee turnover	The loss of qualified employees will delay the execution of the company's strategic plans.	Staff turnover among key employees is low. Avangardco offers opportunities for professional development and invests in staff development programmes.
	TAX RISK: ABILITY TO MITIGATE - LIMITED	
Changes in the tax system of Ukraine	Non-compliance with laws and regulations may lead to significant fines and penalties. Changes in tax treatment of the industry may increase tax pressure on the company.	Comply with applicable tax regulations, practise legitimate tax avoidance where possible.

Our mission is to promote global public health by giving consumers access to affordable, healthy and safe eggs and egg products. We aim to achieve this by following our vision of becoming a leading global producer of eggs.

We strongly believe that the only way to fulfil our mission and our vision is to create long-term value for our shareholders and other stakeholders through sustainable performance. Our values guide us to a sustainable future.

Transparency	We do business in a transparent manner and remain open to our stakeholders both as a public corporation and as a socially and environmentally responsible company.
Quality	We focus on product and service quality. While our other competitive advantages can help us attract new clients, high product quality is a key factor for client retention.
Safety	We strive to ensure the safety of our operations and products for employees, consumers and the environment.
Sustainability	We pursue sustainable development. Innovation, quality, efficiency and safety allow us to continue to create value for both consumers and shareholders.
Innovation	We use innovation to be as efficient as possible in today's rapidly changing global business environment.
Efficiency	We do business with maximum efficiency; this gives us a platform for long-term growth and creation of long-term value for both consumers and shareholders.
Commitment	We honour our obligations and maintain our long-term reputation as a reliable partner.

Quality and Safety Management System

To provide effective quality control, the company has developed and implemented an integrated quality and safety management system. It is based on the key best practice international norms and principles for food quality standards set for food producers, including:

- Hazard Analysis and Critical Control Point approach (HACCP)
- Good Manufacturing Practice (GMP)
- Standards of the International Organisation for Standardisation (ISO)
- Standards of the GLOBAL-G.A.P. (EurepGAP)

The system ensures quality control and risk management at each stage of food production so our customers can be fully confident of the safety and high quality of products.

Ongoing Quality Control

The company applies several levels of quality and safety control for its products:

- Implemented HACCP
- Internal audits to verify the quality control system
- External audits by independent certification authorities.

Certificates

In January 2017, Avangardco's Quality Management System was certified to ISO 9001:2015.

In addition, the company's key production facilities are certified to ISO 22000:2005 for Food Safety Management Systems. This certification ensures that products are strictly compliant with all recommendations and requirements throughout each stage of food production.

Avangardco respects the religious beliefs and traditions of its customers. With this in mind, the company has had its production of shell eggs and egg products certified to Kosher and Halal requirements.

ISO 9001:2015 Certificate:


CERTIFICATE

ISO 22000:2005 Certificate:


CERTIFICATE

HACCP system Certificate:


CONFIRMATION

ISO 9001:2008 Certificate:


CERTIFICATE

FSSC 22000 Certificate:

ISO 22000:2005 Certificate:

Halal Certificate:

Kosher Certificate:

Biosecurity

In order to minimize the risk of disease and epidemics among the poultry population, the company has implemented a wide range of measures in line with international practices.

Strict control prevents contact between the population and carriers of diseases such as wild birds and vermin.

We contain the birds indoors; every production facility is surrounded by a disinfection barrier and is located at least 300-1,200 meters from the nearest settlements.

The company's laying farms use a separate rearing system for birds of different age in order to prevent transmission of infection from the older population to the younger.

During maintenance breaks in the production process, production sites are thoroughly cleaned and disinfected.

Our farms are located at a large distance from one another to make it possible to enforce an emergency quarantine in case of contagious disease outbreaks.

We control feed delivery, minimise contact between humans and poultry flock, and follow the practice of thorough selection of breeding stock more resistant to disease.

We vaccinate all chickens in our incubators against Newcastle disease, Marek's disease, bronchitis, IBD and other diseases in accordance with Ukrainian legislation. The company's facilities have never registered a case of avian flu, Newcastle disease or Marek's disease.

Laying farm employees are prohibited from keeping birds in their households.

We constantly monitor the health of our employees as well as of the poultry population. In addition, we have strict biosecurity measures in place at our compound feed mills. This includes limited access, disinfection barriers and disinfection of warehouses, as well as regular spot checks of raw materials and finished feed at local and regional laboratories. The company's structure includes specialised laboratories staffed with highly qualified employees. All employees are required to pass mandatory training before working at the company; we regularly check and update their knowledge of compliance with biosecurity rules.

CORPORATE GOVERNANCE

Corporate Governance Statement

The company is incorporated in Cyprus but, as its shares are not listed on the Cyprus Stock Exchange, it is not required to comply with the corporate governance regime of Cyprus.

Avangardco IPL shares are traded on the London Stock Exchange in the form of GDRs but, as it does not have a premium listing and as a company incorporated in Cyprus, the company is not subject to the UK Combined Code on Corporate Governance issued by the Financial Reporting Council.

In the absence of any mandatory requirements, Avangardco IPL is in the process of building its own corporate governance system based on international best practice recommendations. It is also guided by key corporate governance principles*.

Avangardco's Corporate Governance System

Board Composition and Balance

The company's Board consists of three Executive Directors and one independent Non-Executive Director.

On 16 September 2016, Iryna Marchenko, a former Member of the Board of Directors and CEO of Avangardco IPL resigned. Following this change, Oleg Bakhmatyuk, the company's founder, became Chairman of the Board replacing Nataliya Vasylyuk, who retook the position of Chief Executive Officer of Avangardco IPL and remained on the Board of Directors.

The current Board of Directors is as follows:

- Oleg Bakhmatyuk
  (Chairman of the Board)
- Nataliya Vasylyuk
  (Chief Executive Officer)
- Oleg Michael Pohotsky
  (Non-Executive Director)
- Iryna Melnyk
  (CFO, Member of the Board, appointed on 16 September 2016)

The company considers this to be a satisfactory balance of Board members for the purposes of decision making. In addition, this structure follows the recommendation of The UK Corporate Governance Code that the function of the Chairperson of the Board and CEO should be separated.

Board of Directors' Responsibilities and Meetings

The Directors are responsible for formulating, reviewing and approving the company's and its subsidiaries' strategies, budgets, certain items of capital expenditure and senior personnel appointments.

The Board of Directors shall meet not less than four times a year and as needed. To enable the Board of Directors to carry out their duties, each Director has full access to all relevant information.

Board Committees

It is the intention of the Board of Directors to establish Audit, Nomination and Remuneration Committees as described below. The Board may form other Committees as necessary in order to ensure effective governance.

Committees as described below. The Board may form other Committees as necessary in order to ensure effective governance.

- The Audit Committee
  The Audit Committee shall comprise not less than three Directors, at least one of whom will be an independent Non-Executive Director. The Audit Committee's responsibilities include, among other things, reviewing the company's financial statements, accounting policies and internal controls and overseeing its relationship with its external auditors.
- The Nomination Committee
  The Nomination Committee shall comprise not less than three Directors, two of whom will be independent

non - executive Directors. The Nomination Committee's responsibilities include, among other things, reviewing the composition of the company's Board of Directors and making recommendations to the Board with regard to any changes.

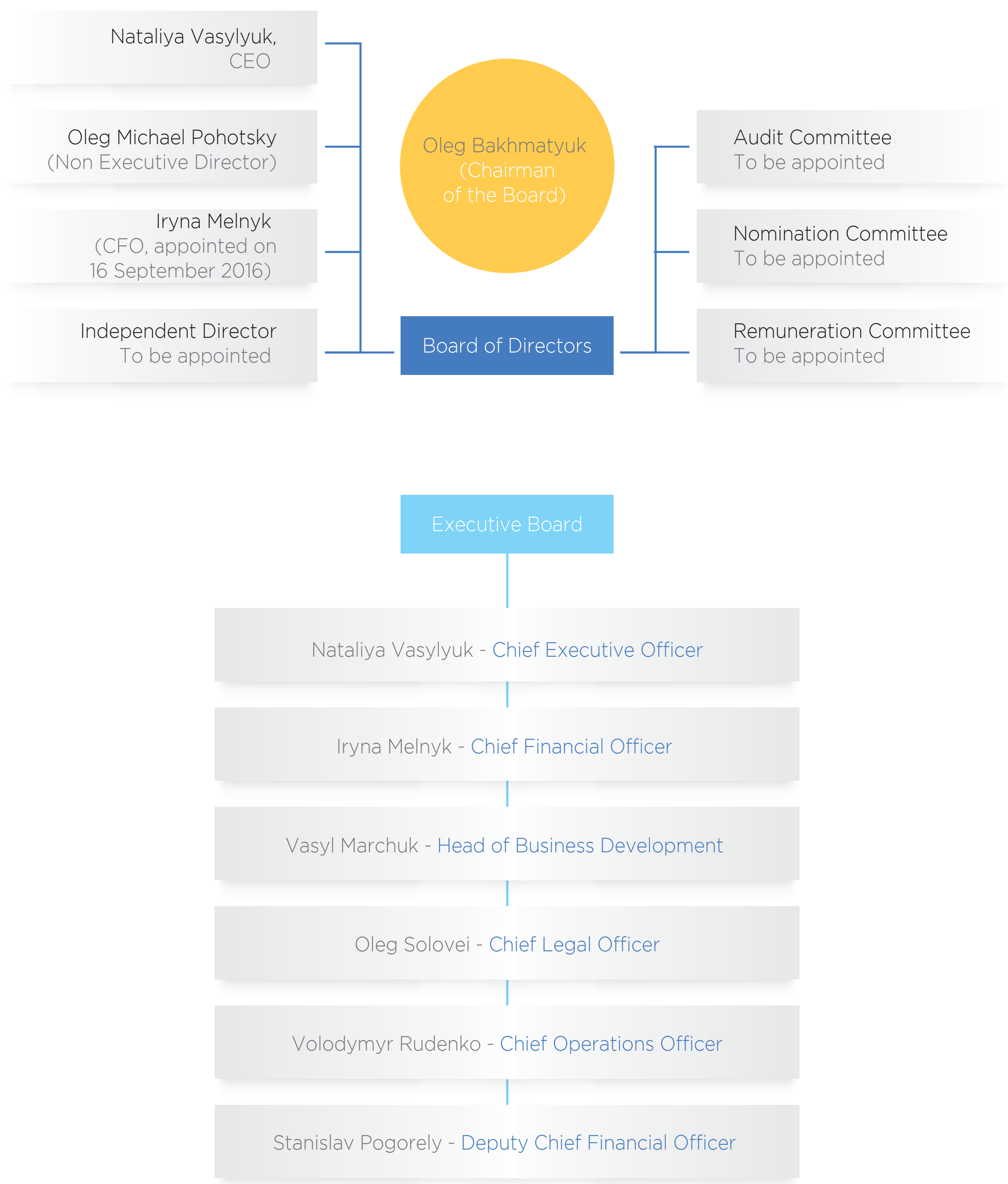
- The Remuneration Committee

The Remuneration Committee shall comprise not less than three Directors, two of whom will be independent non-executive Directors. The Remuneration Committee's responsibilities include, among other things, determining the company's policy on remuneration; however, no Director or manager will be entitled to vote on any decisions regarding his or her own remuneration.

*** Avangardco IPL's Key Corporate Governance Principles**

- Shareholders are given the opportunity to exercise their rights associated with their shareholdings in the company;
- Equal relations exist for shareholders on a one-share one-vote basis, including minority shareholders;
- The Board of Directors oversees the strategic management of the company's activities and controls the actions of executive bodies within the company;
- Current company activities are managed by its executive bodies in the interests of ensuring long-term stable development and achieving returns for shareholders from these activities; executive bodies are held accountable by the company's Board of Directors and shareholders;
- Timely disclosure of complete and reliable information about the company is made in order to enable shareholders and investors to make informed decisions, in accordance with the Listing Rules and Disclosure and Transparency Rules of the UK Financial Services Authority;
- Effective control over the company's financial and economic activity is ensured in order to protect the rights and legitimate interests of shareholders and other interested parties. In accordance with the company's charter, the highest management body is the shareholders' meeting held at least once a year. The shareholders elect the Board of Directors, and approve the annual report and other reports from the Board of Directors and the company's auditor. The Board manages the company, with the exception of the exclusive authority of the general shareholders' meeting, and recommends dividends, which are then approved by the shareholders' assembly, but cannot be higher than the recommended amount.

Corporate Governance Structure:



BOARD OF DIRECTORS

Oleg Bakhmatyuk
Chairman of the Board

Oleg Bakhmatyuk graduated from the Chernivtsi Institute of Economics and Law with a degree in business administration and from the Ivano-Frankivsk National Technical University of Oil and Gas with a degree in engineering, physics and management.

Oleg Bakhmatyuk founded Avangard in 2003 and Ukrlandfarming PLC in 2007.

Between 2010 and 2013 Mr. Bakhmatyuk served as Chairman of the Board of Directors of Avangardco IPL. Since 2013 Mr. Bakhmatyuk has been a member of the Board of Directors of Avangardco IPL. Mr. Bakhmatyuk again took over as Chairman of the Board of Directors of Avangardco IPL in April 2016.

Since 2010 Mr. Bakhmatyuk has served as Chairman and CEO of Ukrlandfarming PLC. Oleg Bakhmatyuk owns several other companies in the food, transport, real estate and finance sectors.

Nataliya Vasylyuk
Board Member

Nataliya Vasylyuk obtained a Finance and Accounting degree from the Ivano-Frankivsk National Technical University of Oil & Gas in 2005. She began her career in 2004 as sales and marketing director at LLC Prykarpattya Financial Company, then from 2004 to 2007 she served as CFO at LLC Stanislavska Trade Company. Nataliya Vasylyuk joined the company in 2007. Between 2007 and 2010 she served as CEO and from April 2010 to January 2013 while staying on as CEO she also became a member of the Board of Directors of Avangardco IPL. Nataliya Vasylyuk served as Chair of the Board from January 2013 to April 2016. She retook the position of CEO in April 2016.

Oleg Michael Pohotsky
Independent
Non-Executive Director

Oleg Pohotsky holds an MBA from the Harvard University Graduate School of Business and a Juris Doctor degree from the University of Miami Law School. He also holds a BSChE degree from Clarkson University. Mr. Pohotsky has been the managing partner of Right Bank Partners, a corporate governance and strategy advisory firm. He serves as Chairman of the Board of the H&Q Healthcare and Life Sciences Funds and as a director of the New America High Income Fund, All three closed-end funds are NYSE-listed. Mr. Pohotsky also serves on the Board of Advisors of Kaufman & Co., a Boston-based boutique investment banking firm and in the position of Senior Advisor to Governance Metrics International.

Mr. Pohotsky has served as an independent non-executive Director of the company since 2011.

Iryna Melnyk
Board Member

Iryna Melnyk graduated from the Economy Faculty of Stefanyk Prykarpattya National University in 2002 with a degree in business administration. She was appointed as financial director of Stanislavska Trading Company in 2005 and was appointed CEO of Ukrmyaso in 2007. Ms. Melnyk joined the company in 2010 as Deputy Chief Financial Officer. Iryna Melnyk was promoted to Chief Financial Officer of Avangardco IPL in 2013. Ms. Melnyk became a member of the Board of Directors of Avangardco IPL in September 2016.

MANAGEMENT BOARD

Nataliya Vasylyuk
Chief Executive Officer

Nataliya Vasylyuk obtained a Finance and Accounting degree from the Ivano-Frankivsk National Technical University of Oil & Gas in 2005. She began her career in 2004 as sales and marketing director at LLC Prykarpattya Financial Company, then from 2004 to 2007 she served as CFO at LLC Stanislavska Trade Company. Nataliya Vasylyuk joined the company in 2007. Between 2007 and 2010 she served as CEO and from April 2010 to January 2013 while staying on as CEO she also became a member of the Board of Directors of Avangardco IPL. Nataliya Vasylyuk served as Chair of the Board from January 2013 to April 2016. She retook the position of CEO in April 2016.

Iryna Melnyk
Chief Financial Officer

Iryna Melnyk graduated from the Economy Faculty of Stefanyk Prykarpattya National University in 2002 with a degree in business administration. She was appointed as financial director of Stanislavska Trading Company in 2005 and was appointed CEO of Ukrmyaso in 2007. Ms. Melnyk joined the company in 2010 as Deputy Chief Financial Officer. Iryna Melnyk was promoted to Chief Financial Officer of Avangardco IPL in 2013. Ms. Melnyk became a member of the Board of Directors of Avangardco IPL in September 2016.

Vasyl Marchuk
Head of Business Development

Vasyl Marchuk graduated from the Ivano-Frankivsk National Technical University of Oil & Gas in 1994 with degrees in mechanical engineering and accountancy. He held management posts in various companies from 1995. In 1997 he was appointed CFO of Prykarpattyaoblenergo. In 2001 he was appointed deputy chairman for financial and economic matters at Ivano-Frankivskgas. In 2004 he became chairman of Lvivgas. He became head of the Ukrainian Association of Regional Gas Distribution Companies in 2010. Mr. Marchuk joined the company in 2010.

Oleg Solovei
Chief Legal Officer

Oleg Solovei graduated from the Taras Shevchenko National University in 1998 with a diploma in law. He was appointed head of the Kyivenergo Property and Material Relations Department in 2001. He became head of administration at the Social Insurance against Temporary Incapacity Fund in 2005. Mr. Solovei was appointed head of the legal department at Ukrprofzdravnitsa in 2006.

Mr. Solovei joined the company in 2011.

Volodymyr Rudenko
Chief Operations Officer

Volodymyr Rudenko graduated from the Kyiv National University with a degree in economic cybernetics in 2005. After graduation Mr. Rudenko worked for Ukrainian Gas and Finance Consulting Group as an economic analyst and later for System Technology Company Investments as head of the payment transactions control division. In 2008, he was promoted to the position of head of Financial Reporting and Control. Mr. Rudenko joined the company in 2011 as Chief Analysis Officer. Since November 2016, Mr. Rudenko has served as Chief Operations Officer.

Stanislav Pohorilyi
Deputy Chief Financial Officer

Mr. Pogorely graduated from the Kyiv National Economic University named after Vadym Hetman with a degree in tax and taxation in 2001. He started his career as assistant auditor in Ukrproduct Group in 2003. In 2007, Mr. Pogorely served as head of Internal Audit of Ukrmyaso. Mr. Pogorely joined Avangard in 2010 as head of Internal Audit and was promoted to Deputy Chief Financial Officer the same year.

Board of Directors and other officers

BOARD OF DIRECTORS:

Oleg Bakhmatyuk
(Chairman of the Board)

Nataliya Vasylyuk
(Chief Executive Officer)

Oleg Michael Pohotsky
(Non Executive Director)

Iryna Melnyk
(Member of the Board, appointed on 16 September 2016)

Iryna Marchenko (Member of the Board, resigned on 16 September 2016)

COMPANY SECRETARY:

Gliage Investments Limited
3 Anexartisias & Kyriakou Matsi
3040 Limassol
Cyprus

REGISTERED OFFICE:

3 Anexartisias & Kyriakou Matsi
3040 Limassol
Cyprus

LEGAL ADVISORS:

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

Avellum Partners LLC
Leonardo Business Center
19-21 Bohdana Khmelnytskoho Str.
11th floor
01030 Kyiv,Ukraine

INDEPENDENT AUDITORS:

KPMG Limited
14, Esperidon Str.
1087 Nicosia, Cyprus

BANKERS:

UBS AG
Postfach, CH-8098 Zurich

Deutsche Bank AG
De Entree 99-197
1101 HE Amsterdam
Postbus 12797
1100 AT Amsterdam

Declaration of the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of the Company

We, the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of AvangardCo Investments Public Limited (the "Company") for the year ended 31 December 2016, based on our opinion, which is a result of diligent and scrupulous work, declare that the elements written in the consolidated financial statements are true and complete.

Members of the Board of Directors:

Oleg Bakhmatyuk

Nataliya Vasylyuk

Oleg Michael Pohotsky

Iryna Melnyk

Person responsible for the preparation of the consolidated financial statements for the year ended 31 December 2016:

Stanislav Pohorilyi (Deputy CFO)

23 March2017

MANAGEMENT REPORT

The Board of Directors of AvangardCo Investments Public Limited (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company and of its subsidiaries (together with the Company referred to as "the Group") for the year ended 31 December 2016.

Principal activities

The principal activities of the Group which remained the same as in the previous year are:

- keeping of technical laying hen, production and selling of eggs,
- incubation (production and sale of day-old chick), farming of young poultry for sale, and poultry,
- production and selling of mixed fodder and
- processing of eggs and selling of egg products.

Financial results

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 12 to the consolidated financial statements.

The loss for the year attributable to the owners of the Company amounted to USD 56 978 thousand (2015: loss USD 154 640 thousand) which the Board of Directors recommends to be transferred to the revenue reserve.

Examination of the development, position and performance of the activities of the Group

The Group recorded a loss of USD 56 636 thousand compared to a loss of USD 158 390 thousand in the previous year. The Group's total assets also decreased to USD 529 491 thousand from USD 624 171 thousand mainly as a result of Ukrainian Hryvnia devaluation.

Dividends

The Board of Directors does not recommend the payment of a dividend for the year (2015: nil).

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are disclosed in notes 37 and 39 to the consolidated financial statements.

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued throughout the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings.

Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert 65% (2015: 75%) of foreign currency proceeds to local currency, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

The uncertain economic conditions in Ukraine have affected the cash flow forecasts of the Group's management in relation to the impairment assessment for financial and non-financial assets. The Group's management has assessed whether any impairment provisions are deemed necessary for the Group's financial assets carried at amortised cost by considering the economic situation and outlook at the end of the reporting period.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Share capital

There was no change in the share capital of the Company during the year.

Board of Directors

The members of the Board of Directors as at 31 December 2016 and at the date of this report are presented on page 1.

There is no requirement in the Company's Articles of Association for the retirement of directors by rotation, thus all Directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

The Directors are responsible for formulating, reviewing and approving the Company's and its subsidiaries' strategies, budgets, certain items of capital expenditures and senior personnel appointments. Although the Company is listed on the London Stock Exchange, it is not subject to the UK Corporate Governance Code issued by the Financial Reporting Council because it is a Cyprus incorporated company. Nevertheless, the Directors intend to establish audit, nomination and remuneration committees and may form other committees as necessary in order to improve corporate governance.

Events after the reporting period

The events after the reporting period are presented in note 40 to the consolidated financial statements.

Branches

The Group did not operate through any registered branches during the year.

Related party balances and transactions

Disclosed in note 33 to the consolidated financial statements.

Independent Auditors

The independent auditors of the Company, KPMG Limited have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to reappoint them and fix their remuneration will be proposed at the next Annual General Meeting of the Company.

By Order of the Board of Directors,

Nataliya Vasylyuk
Chief Executive Officer
Nicosia, 23 March 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVANGARDCO INVESTMENTS PUBLIC LIMITED

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of AvangardCo Investments Public Limited (the "Company"), and its subsidiaries (the "Group"), whith are presented on pages 11 to 78 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flow the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors responsibilities for the audit of the consilidated financial statements " section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with there requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to notes 2.4, 4.12 and 39 to the consolidated financial statements, which describe the political and social unrest and regional tensions in Ukraine.The impact of the events referred to in notes 2.4, 4.12 and 39 about the continuing economic and political crisis in Ukraine and their final resolution cannot be determined and may adversely affect the Ukrainian economy and the operations of the Group and its ability to meet its obligations as they fall due. our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. There matters were addressed in the context of our audit of the financial statementes as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of biological assets

Refer to Note 6 (biological assets) and to Note 38 (fair values) to the consolidated financial statements.

The key audit matter

The Group's biological assets consist of poultry, which is measured at fair value less costs to sell.

Estimating the fair value is a complex process as it involves a number of judgments and estimates regarding various inputs and the valuation model. Due to the nature of the asset, the valuation technique includes a discounted cash flow model that uses a number of inputs from mostly internal sources. Consequently, we have determined the valuation of biological assets to be a key audit matter.

How the matter was addressed in our audit

Our audit approach in this area included, among others:

- considering the appropriateness of the valuation methodology by reviewing the valuation expert's report, whose competence was firstly assessed, on the methodology used by the Group and agreeing its consistency with IFRS;
- evaluating the operating effectiveness of controls over the estimation of the number of poultry;
- evaluating the Group's inputs used in calculating the estimated cash flows such as egg prices, inflation rate etc. through observation to internal supporting documentation and their reasonableness against external data;
- involving our own valuation specialist to assist in evaluating the appropriateness of the discounted rate used, which included observing market data from market sources such as bond yields, risk premiums, inflation rates etc.;
- testing the mathematical accuracy of the discounted cash flow model;
- evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions, judgments and sensitivities.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the *"Report on other legal requirements"* section.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to cither liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing thr Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain

reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throghout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher that for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectivenses of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cause to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair riew.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, amount other matters, the planned scope and timing of the audit and significant audit findings, including any signifi-cant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all

relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matter communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

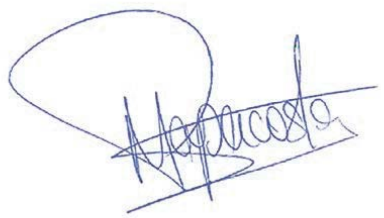
Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts of Law 2009, L42(I)/2009, as amended from time to time ("Law 42(I)/2009"), we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- I our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opnion, the Management Report on page 3 to 5, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap. 113, and is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113.
- In our opnion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this inderendent auditors' report is Maria A. Papacosta.



Maria A. Papacosta, FCCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountant and Registered Auditor
14 Esperidon Street
1087 Nicosia
Cyprus
23 March 2017

Consolidated statement of financial position
AS AT 31 DECEMBER 2016
(in USD thousand, unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Property, plant and equipment	5	357 821	404 930
Non-current biological assets	6	14 273	13 403
Deferred tax assets	19	5 663	2 761
Held to maturity investments	7	5 700	9 257
Other non-current assets		5	6
Non-current assets		383 462	430 357
Inventories	9	62 144	58 149
Current biological assets	6	7 755	13 736
Trade accounts receivable, net	10	40 628	56 665
Prepaid income tax	19	41	72
Prepayments and other current assets, net	11	14 412	21 027
Taxes recoverable and prepaid	8	8 479	12 858
Cash and cash equivalents	12	12 570	31 307
Current assets		146 029	193 814
TOTAL ASSETS		529 491	624 171
EQUITY			
Share capital	13	836	836
Share premium	13	201 164	201 164
Reserve capital		115 858	115 858
Retained earnings		864 457	921 435
Effect of translation into presentation currency		(1 053 923)	(1 018 085)
Equity attributable to owners of the Company		128 392	221 208
Non-controlling interests		10 418	13 847
Total equity		138 810	235 055
LIABILITIES			
Long-term bond liabilities	15	219 014	202 871
Long-term loans	14	93 924	64 423
Deferred tax liabilities	19	351	410
Deferred income		1 123	1 384
Dividends payable		29 542	29 542
Long-term finance lease		3	28
Non-current liabilities		343 957	298 658

Consolidated statement of financial position
AS AT 31 DECEMBER 2016 (cont.)
(in USD thousand, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Current portion of non-current liabilities	18	31 224	19 125
Short-term loans	16	-	50 000
Trade payables	20	3 062	3 375
Other accounts payable	21	12 438	17 958
Current liabilities		46 724	90 458
TOTAL LIABILITIES		390 681	389 116
TOTAL EQUITY AND LIABILITIES		529 491	624 171

On 23 March 2017 the Board of Directors of AvangardCo Investments Public Limited approved and authorised these consolidated financial statements for issue.

Nataliya Vasylyuk
Director, CEO

Iryna Melnyk
Director, CFO

The notes on pages 16 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income
FOR THE YEAR ENDED 31 DECEMBER 2016
(in USD thousand, unless otherwise stated)

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue	23	191 304	229 924
(Loss)/profit from revaluation of biological assets at fair value	6	(2 232)	1 391
Cost of sales	24	(175 875)	(209 190)
GROSS PROFIT		13 197	22 125
General administrative expenses	26	(7 886)	(7 195)
Distribution expenses	27	(8 558)	(10 773)
Income from government grants and incentives	31.1	98	107
Income from special VAT treatment	31.2	5 376	25 098
Other operating expenses	28	(17 107)	(116 466)
LOSS FROM OPERATING ACTIVITIES		(14 880)	(87 104)
Finance income	30	2 825	3 978
Finance costs	29	(31 280)	(32 528)
Losses on exchange		(16 622)	(43 616)
NET FINANCE COSTS		(45 077)	(72 166)
LOSS BEFORE TAX		(59 957)	(159 270)
Income tax credit	19	3 321	880
LOSS FOR THE YEAR		(56 636)	(158 390)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that are or may be reclassified subsequently to profit or loss			
Effect from translation into presentation currency		(39 609)	(255 410)
TOTAL COMPREHENSIVE INCOME		(96 245)	(413 800)
LOSS ATTRIBUTABLE TO:			
Owners of the Company		(56 978)	(154 640)
Non-controlling interests		342	(3 750)
		(56 636)	(158 390)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		(92 816)	(396 321)
Non-controlling interests		(3 428)	(17 479)
		(96 245)	(413 800)
Loss per share			
Basic and diluted (USD)	35	(9)	(24)

The notes on pages 16 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
FOR THE YEAR ENDED 31 DECEMBER 2016
(in USD thousand, unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Capital contribution reserve	Share premium	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	836	115 858	201 164	1 077 158	(776 404)	618 612	27 276	645 888
Comprehensive income								
Loss for the year	-	-	-	(154 640)	-	(154 640)	(3 750)	(158 390)
Effect from translation into presentation currency	-	-	-	-	(241 681)	(241 681)	(13 729)	(255 410)
Total comprehensive income	-	-	-	(154 640)	(241 681)	(396 321)	(17 479)	(413 800)
Transactions with owners								
Results of operations under common control	-	-	-	(1 083)	-	(1 083)	181	(902)
Effect from changes in ownership	-	-	-	-	-	-	3 869	3 869
Total transactions with owners	-	-	-	(1 083)	-	(1 083)	4 050	2 967
Balance at 31 December 2015	836	115 858	201 164	921 435	(1 018 085)	221 208	13 847	235 055
Balance at 1 January 2016	836	115 858	201 164	921 435	(1 018 085)	221 208	13 847	235 055
Comprehensive income								
Loss for the year	-	-	-	(56 978)	-	(56 978)	342	(56 636)
Effect from translation into presentation currency	-	-	-	-	(35 838)	(35 838)	(3 771)	(39 609)
Total comprehensive income	-	-	-	(56 978)	(35 838)	(92 816)	(3 428)	(96 245)
Balance at 31 December 2016	836	115 858	201 164	864 457	(1 053 923)	128 392	10 418	138 810

(1) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium can only be used by the Company in (a) paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; (b) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (c) providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the Company.

(2) Companies incorporated in Cyprus which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defense of the Republic Law, during the year after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 17% for the tax year 2014 and thereafter will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the owners.

The above requirements of the Law are not applied in the case of the Company due to the fact that its owners are not residents in Cyprus for tax purposes.

The notes on pages 16 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
FOR THE YEAR ENDED 31 DECEMBER 2016
(in USD thousand, unless otherwise stated)

	Note	The year ended 31 December 2016	The year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(59 957)	(159 270)
Adjustments for:			
Depreciation of property, plant and equipment	5	15 657	17 628
Change in allowance for irrecoverable amounts		18 582	40 156
Profit/loss on disposal of current assets	28	(14)	20
(Income)/loss on disposal of non current assets	28	(150)	95
Impairment of current assets	28	709	39 869
Effect of fair value adjustments on biological assets	6	2 232	(1 391)
Gains realised from accounts payable written-off	28	(262)	(178)
Amortization of deferred income on government grants	31.1	(98)	(107)
Discount bonds amortization	28	2 096	1 974
Impairement of funds		-	28 190
Discount on VAT government bonds amortization		(1 449)	(1 979)
Interest income		(1 376)	(1 999)
Interest payable on loans and bonds		29 186	27 947
Losses on exchange		16 622	36 021
Operating profit before working capital changes		21 778	26 976
Increase in trade receivables		(5 802)	(30 086)
Decrease/(increase) in prepayments and other current assets		224	(2 627)
Decrease in taxes recoverable and prepaid		7 134	24 493
Increase in inventories		(11 945)	(17 472)
Decrease in deferred income		(7)	-
Decrease in other non-current assets		-	13
Increase/(decrease) in trade payables		351	(1 259)
(Increase)/decrease in biological assets		(196)	5 030
Decrease in finance leases		(39)	(16)
(Decrease)/increase in other accounts payable		(10 486)	1 123
Cash generated from operations		1 012	6 175
Interest paid		(4 224)	(4 897)
Income tax paid		(43)	(63)
Net cash (used in)/generated from operating activities		(3 255)	1 215

The notes on pages 16 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
FOR THE YEAR ENDED 31 DECEMBER 2016 (cont.)
(in USD thousand, unless otherwise stated)

	Note	The year ended 31 December 2016	The year ended 31 December 2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments and receipts - property, plant and equipment		(12 981)	(37 446)
Acquisitions of subsidiary		-	5
Proceeds from sale of non-current assets		779	-
Interest received		2 829	2 183
Net cash used in investing activities		(9 373)	(35 258)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans received		50 208	12 484
Repayment of loans		(51 952)	(13 729)
Interest paid for bonds issued		(5 247)	(14 000)
Net cash used in financing activities		(6 991)	(15 245)
Net decrease in cash and cash equivalents		(19 619)	(49 288)
Cash and cash equivalents at 1 January		31 307	117 856
Impairement of funds		-	(25 639)
Effect from translation into presentation currency		882	(11 622)
Cash and cash equivalents at 31 December	12	12 570	31 307

The notes on pages 16 to 77 form an integral part of these consolidated financial statements.

1. General information

AvangardCo Investments Public Limited (the "Company") was incorporated as a limited liability company on 23 October 2007 in accordance with the provisions of the Cyprus Companies Law, Cap. 113, under the name of Ultrainvest Limited. On 8 July 2009, the Registrar of Companies in Cyprus issued a certificate to the effect that the Company was re-registered as a public limited company and changed its name to AvangardCo Investments Public Limited. The Company was listed at London Stock Exchange Main Market on 6 May 2010.

The Company's registered office is at 3 Anexartisias & Kyriakou Matsi, 3040 Limassol, Cyprus.

The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together with the Company referred to as the "Group").

In 2009 the principal owner of AvangardCo Investments Public Limited reorganised the Group, as a result of which AvangardCo Investments Public Limited became the holding company of an agricultural group of agricultural enterprises, which in the past were under the common ownership and control of this owner. The restructuring was carried out by the transfer of direct interest in the Group's companies. The restructuring was undertaken to achieve legal consolidation of control over agricultural companies of the Group. The reorganisation did not affect the principal activities of the Group.

The history of "Avangard" began with the acquisition by the principal owner of the first poultry farm "Avangard" located in the Ivano-Frankivsk region of Ukraine. Subsequently, to supply the poultry farm with growing birds, the subsidiary "Avangard-Agro" was established. In 2004 a concept of development of this business line was designed, as a result of which in 2005-2009 other major enterprises of agrarian industry in Ukraine joined the Group.

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2016 the production facilities of the Group include 32 poultry facilities (consisting of 19 egg laying farms, 10 farms for growing young laying hens and 3 breeder farms), 6 fodder mills, 3 long-term egg storage facilities and 1 plant for manufacture of egg products. This vertically - integrated structure of the Group allows processing of approximately 84% of its own fodder. The Group's activities cover almost all the territory of Ukraine. Due to the operating environment in Ukraine, the companies of the Group which have been affected and are not operational are described in note 39 to the consolidated financial statements.

In order to build a vertically-integrated group, reduce business risk and gain additional profit due to synergies, the Group acquired a hen breeding concern. This ensures breeding of the required number of high quality daily chickens and their timely delivery to factories.

The construction of new full cycle egg production facilities, fully automated, in compliance with European standards of quality is an integral part of the Group's growth strategy.

The Group's subsidiaries all of which are incorporated in Ukraine, their principal activities and the effective ownership interests are as follows:

Company name	Principal Activity	Country of registration	Ownership interest (%) 31 December 2016	Ownership interest (%) 31 December 2015
PJSC Agroholding Avangard (PJSC Ptakhohospodarstvo Chervonyi Prapor)	Keeping of technical laying hen, production and selling of eggs	Ukraine	98,00%	98,00%
LLC Yuzhnaya - Holding		Ukraine	100,00%	100,00%
PPB LLC Ptytsecompleks		Ukraine	100,00%	100,00%
PSPC Interbusiness		Ukraine	100,00%	100,00%
SC Avangard-Agro of PJSC Agroholding Avangard		Ukraine	98,00%	98,00%
SC Ptakhohospodarstvo Donetske of PSPC Interbusiness		Ukraine	100,00%	100,00%
LLC Slovyany		Ukraine	90,00%	90,00%
SC Ptakhohospodarstvo Lozuvatske of Avangardco Investments Public Limited	Incubation (production and sale of day-old chick), farming of young poultry for sale	Ukraine	100,00%	100,00%
SC Zorya of PJSC Agroholding Avangard		Ukraine	98,00%	98,00%
SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo ChervoniyPrapor		Ukraine	98,00%	98,00%
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100,00%	100,00%
SC Ptakhogopodarstvo Volnovaske of PSPC Interbusiness		Ukraine	100,00%	100,00%
SC Ptakhohospodarstvo Chornobaivske of PJSC Agroholding Avangard		Ukraine	98,00%	98,00%
LLC Rohatyn-Korm		Ukraine	100,00%	100,00%
PJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod	Production and selling of animal feed	Ukraine	100,00%	100,00%
PJSC Volnovaskyi Kombinat Khliboproduktiv		Ukraine	99,00%	99,00%
LLC Kamyanets-Podilsky Kombikormoviy Zavod		Ukraine	98,00%	98,00%
LLC Pershe Travnya Kombikormoviy Zavod		Ukraine	98,00%	98,00%
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	96,00%	96,00%
LLC Agrarnyi Holding Avangard	Rendering services under guarantee agreements	Ukraine	100,00%	100,00%
LLC Torgivenlniy Dim Avangard (LLC Imperovo LTD)	Rental services	Ukraine	99,00%	99,00%
LLC "GENERAL KONSTRAKSHYN"		Ukraine	98,00%	98,00%
LLC "LOHISTYK AGROTRADE"		Ukraine	100,00%	100,00%
LLC "REMTREYDSTANDART"		Ukraine	98,00%	98,00%
LLC "COMPANY NEW REGION"	Assets holding companies	Ukraine	98,00%	98,00%
LLS "PRIME LEADER"		Ukraine	98,00%	98,00%
LLC "CITY REGION"		Ukraine	98,00%	98,00%
LLC "FORVARDTRANS"		Ukraine	98,00%	98,00%
LLC "UNITED LOHISTYK"		Ukraine	98,00%	98,00%
LLC "AGROTRADE BUSINESS"		Ukraine	98,00%	98,00%

Company name	Principal Activity	Country of registration	Ownership interest (%) 31 December 2016	Ownership interest (%) 31 December 2015
LLC "KOMERTSBUDPLAST"		Ukraine	98,00%	98,00%
LLC "AGROMASH-ZAHID"	Assets holding companies	Ukraine	98,00%	98,00%
LLC "STC-INVESTMENTS"		Ukraine	98,00%	98,00%
LLC "TRANSMAGISTRAL"		Ukraine	93,00%	92,00%
PJSC Avangard*		Ukraine	0,00%	99,00%
PJSC Chornobaivske*		Ukraine	0,00%	97,00%
PJSC Agrofirma Avis*		Ukraine	0,00%	100,00%
PJSC Kirovskiy*		Ukraine	0,00%	100,00%
SC Ptakhofabryka Lozuvatska of Avangardco Investments Public Limited*		Ukraine	0,00%	100,00%
LLC Makarivska Ptakhofabryka*	Dormant	Ukraine	0,00%	100,00%
LLC PF Volnovaska*		Ukraine	0,00%	100,00%
PJSC Cross-PF Zorya*		Ukraine	0,00%	89,00%
PJSC Ptakhofabryka Pershe Travnya*		Ukraine	0,00%	93,00%
PJSC Chernivetska Ptakhofabryka*		Ukraine	0,00%	98,00%
ALLC Donetska Ptakhofabryka*		Ukraine	0,00%	100,00%
LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka*		Ukraine	100,00%	100,00%

*As at 31 December 2015 the Group completed the process of restructuring through transfer of assets and liabilities. The following companies' assets and liabilities were transferred to PJSC Agroholding Avangard (PJSC Ptakhohospodarstvo Chervonyi Prapor): PJSC Avangard, PJSC Chornobaivske, PJSC Agrofirma Avis, PJSC Kirovskiy, PJSC Cross-PF Zorya, PJSC Ptakhofabryka Pershe Travnya, PJSC Chernivetska Ptakhofabryka. Additionaly, the assets and liabilities of: SC Ptakhofabryka Lozuvatska of Avangardco Investments Public Limited, LLC Makarivska Ptakhofabryka, LLC PF Volnovaska, ALLC Donetska Ptakhofabryka, LLC Areal-Snigurivka, LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka, SC Rogatynska Ptakhofabryka of PJSC Avangard, SC Gorodenkivska Ptakhofabryka of PJSC Avangard were transferred to PSPC Interbusiness. Currently the company LLC Torgivenlniy Budynok Bohodukhivska is in the process of liquidation as legal entity. Companies: PJSC Avangard, PJSC Chornobaivske, PJSC Agrofirma Avis, PJSC Kirovskiy, PJSC Cross-PF Zorya, PJSC Ptakhofabryka Pershe Travnya, PJSC Chernivetska Ptakhofabryka, SC Ptakhofabryka Lozuvatska of Avangardco Investments Public Limited, LLC Makarivska Ptakhofabryka, LLC PF Volnovaska, ALLC Donetska Ptakhofabryka are liquidated as legal entities.

The parent company of the Group is AvangardCo Investments Public Limited, registered in Cyprus, with an issued share capital of 6 387 185 ordinary shares as at 31 December 2016with nominal value of € 0,10 per share.

The shares were distributed as follows:

Owner	31 December 2016		31 December 2015	
	Number of shares	Ownership interest (%)	Number of shares	Ownership interest (%)
Omtron Limited	1 848 575	28,9%	1 848 575	28,9%
Tanchem Limited	926 280	14,5%	926 280	14,5%
Mobco Limited	1	-	1	-
BNY (Nominees) Limited	1 437 500	22,5%	1 437 500	22,5%
UkrLandFarming Plc	2 174 825	34,1%	2 174 825	34,1%
Other	4	-	4	-
	6 387 185	100,0%	6 387 185	100,0%

As at 31 December 2016 and 31 December 2015 the interests in Omtron Limited and Tanchem Limited beneficially owned by UkrLandFarming Plc were as follows:

	Ownership interest (%) as at 31 December 2016	Ownership interest (%) as at 31 December 2015
Omtron Limited	100%	100%
Tanchem Limited	100%	100%

As at 31 December 2016 and 31 December 2015 the direct interests in Mobco Limited and UkrLandFarming Plc beneficially owned by Oleg Bakhmatyuk ("the beneficial owner" hereinafter) were as follows:

	Ownership interest (%) as at 31 December 2016	Ownership interest (%) as at 31 December 2015
Mobco Limited	100%	100%
UkrLandFarming Plc	95%	95%

2. Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. and are for the year ended 31 December 2016.

2.2 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for the biological assets which are measured at fair value and bonds, loans and investments held to maturity which are measured at amortised cost.

2.3 Functional and presentation currency

The functional currency of all companies of the Group is the Ukrainian Hryvnia ("UAH") except in the case of the Cyprus parent company, AvangardCo Investments Public Limited, whose functional currency changed from UAH to Euro ("EUR") as from 1 January 2014. Transactions in currencies other than the functional currency of the Group's companies are treated as transactions in foreign currencies. The Group's management decided to use US dollar ("USD") as the presentation currency for financial and management reporting purposes. Exchange differences arising are classified as equity and transferred to the translation reserve.

2.4 Going concern basis

These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The Board of Directors and Management are closely monitoring the events in the current operating environment of the Group described in note 39to the consolidated financial statements and concider that the Group is able to continueits operations as a going concern and that it will be able to meet its obligation as they fall due.

2.5 Standards and interpretations

Adoption of new and revised International Financial Reporting Standards and Interpretations as adopted by the European Union (EU)

As from 1 January 2016, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by EU which are relevant to its operations. This adoption did not have a material effect on the financial statements of the Group.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2016. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).

(ii) Standards and Interpretations not adopted by the EU

- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual accounting periods beginning on or after 1 January 2017).
- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual accounting periods beginning on or after 1 January 2017).
- Annual Improvements to

- IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)).
- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on thefinancial statements of the Group.

3. Significant accounting policies

The following accounting policies have been applied consistently for all the years presented in these consolidated financial statements. The accounting policies have been consistently applied by all companies of the Group.

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company AvangardCo Investments Public Limited and the financial statements of the companies controlled by the Company as at 31 December 2016.

Transactions under common control

Consolidation of companies including organisations and entities under common control requires that all the organisations and enterprises being consolidated are controlled by one and the same party or parties, both before consolidation and after it, and this control is not transitory.

Subsidiaries

A subsidiary is an entity which is controlled by another entity. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in consolidated financial statements from the date that control commences until the date that control ceases.

Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previously owned subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Combinations of businesses under common control

A business combination in which the combining entities are ultimately controlled by the same individual both before and after the combination and the control is not transitory is accounted using the pooling of interests accounting principles (otherwise known as "carry over accounting" or "predecessor accounting"). The principles of predecessor accounting are:

- The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined from the date that common control was achieved. Consequently, the consolidated financial statements reflect both entities' full periods results, even though the business combination may have occurred part of the way through the period. In addition, the corresponding amounts for the previous period also reflect the combined results of both entities, even though the transaction did not occur until the current period.

Acquisitions of business not under common control

The purchase method is applied for the consolidation of subsidiaries being acquired. On acquisition, the identifiable assets and liabilities of the subsidiary are measured at fair value on the acquisition date, irrespective of the extent of any non controlling interest. Non-controlling interests are reflected proportionally to fair value of cost of recognised assets and liabilities.

If necessary, adjustments are entered into the financial statements of subsidiaries to bring the accounting policies used into compliance with the accounting policies used by other companies of the Group.

Transactions eliminated on consolidation

Intra-Group transactions and balances are eliminated from the consolidated financial statements. Unrealised profits and losses, from transactions between the Group's Companies are also subject to elimination.

Non-controlling interests(NCI)

NCI is represented by interest in the subsidiaries not owned by the Group. NCI in subsidiaries as at the reporting period is the proportion of fair value of the relevant subsidiaries' identified assets and liabilities attributable to those non-controlling interest as at the date of acquisition, together with their share of changes in their equity after the date of acquisition. Equity attributable to owners of non-controlling interest is reported as a separate item in the consolidated statement of financial position.

Business combinations and goodwill

Business combinations (other than those of businesses under common control) are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent considerationis measured at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit that is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in such case is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.2 Foreign currency translation

(a) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities are translated into the functional currency of each company included into the Group, at the rates ruling at the reporting period. Foreign exchange gains and losses, arising from transactions in foreign currency, and also from translation of monetary assets and liabilities into the functional currency of each company included into the Group at the rate ruling at the end of the year, are recognised to profit or loss.

The exchange rates used for the preparation of these consolidated financial statements, are presented as follows:

Currency	31 December 2016	Weighted average for the year ended 31 December 2016	31 December 2015	Weighted average for the year ended 31 December 2015
US dollar to Ukrainian Hryvnia	27,1909	25,5458	24,0007	21, 8290
Euro	0,9567	0,9023	0,9152	0,9018

The empowerment of the USD against UAH has resulted in the reduction of various values disclosed in the statements of profit or loss and of financial position. This reduction is applicable only in case of translation into presentation currency.

The foreign currencies may be freely convertible to the territory of Ukraine at the exchange rate which is close to the exchange rate established by the National Bank of Ukraine. At the moment, the Ukrainian Hryvnia is not a freely convertible currency outside of Ukraine.

(b) Presentation currency

The financial results and position of each subsidiary are translated into the presentation currency as follows:

(1) At each reporting period of financial statements all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at that reporting period;

(2) Income and expenses are translated at the average exchange rates (except for the cases when such average exchange rate is not a reasonably approximate value reflecting cumulative influence of all exchange rates prevailing at the date of transaction, in which case income and expenses are translated at the exchange rates at the date of transaction);

(3) All exchange differences are recognised in other comprehensive income.

3.3 Property, plant and equipment

Initial recognition of property, plant and equipment ("PPE")

PPE is recognised by the Group as an asset only in a case, when:

- it is probable that the Group will receive certain future economic benefits;
- the historical cost can be assessed in a reliable way;
- it is intended for use during more than one operating cycle (usually more than 12 months).

After completion, PPE previously under construction is transferred to the relevant category of PPE.

Expenses after the initial recognition of property, plant and equipment

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenses as expenses of the period, in which they have been incurred. The Group divides all expenses related to the property, plant and equipment, into the following types:

- current repairs and expenses for maintenance and technical service;
- capital refurbishment, including modernisation.

Subsequent measurement of property, plant and equipment

After initial recognition as an asset, the Group applies the model of accounting for the property, plant and equipment at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives agreed upon with the technical personnel of the Group.

The estimated useful lives for the property, plant and equipment are as follows:

Land	Not depreciated
Buildings and constructions	10-70 years
Machinery and equipment	5-25 years
Equipment for biological assets	5-30 years
Vehicles	5-15 years
Other equipment	3-10 years
Construction in progress	Not depreciated

Depreciation methods, residual values and useful lives of assets are reviewed at each reporting period and adjusted if appropriate.

An asset is not depreciated during the first month of its availability for use. The acquired asset is depreciated starting from the following month of the date it is available for use and depreciation is fully accumulated when useful life terminates.

Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss when the asset is derecognised.

Impairment

At each reporting period the Group evaluates whether any indicators of possible impairment of an asset exist. If the recoverable value of an asset or a group of assets within PPE is lower than their carrying (residual) value, the Group recognises such asset or group of assets as impaired, and accrues a provision for impairment of the amount of excess of the carrying value over the recoverable value of the asset. Impairment losses are recognised immediately in profit or loss.

Assets under construction and unistalled equipment

Assets under construction comprise costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the Management.

3.4 Financial instruments

(i) Non - derivative financial assets

The Group classifies its non-derivative financial assets as loans and accounts receivable, available-for-sale financial assets and held-to-maturity investments. The classification depends on the purposes for which the financial assets were acquired. Management takes decision concerning the classification at initial recognition and reviews such classification for reliability at each reporting period.

(a) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable trans-

action costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise of cash and cash equivalents and trade and other accounts receivable.

Loans issued by the Group are financial assets resulting from delivering cash to the borrower. Loans issued are accounted for at amortised cost using the effective interest method, less any impairment losses.

(b) Available for sale financial assets

Available for sale financial assets, are non-derivative financial assets that are designated as available for sale or are not classified into any other category of financial assets. Available for sale financial assets are recognised at fair value plus directly attributable transaction costs.

Investments which Management plans to hold for an indefinite period of time, and which may be sold to improve liquidity or due to changes in interest rates, are classified as available for sale financial assets. These assets are included into non-current assets unless the Group has an obvious intention to hold these assets for a period less than twelve months from the reporting period, and if selling these assets will not result from the need of increasing the working capital, in which case they will be included into current assets. Subsequent to initial recognition available for sale financial assets are recorded at fair value through equity and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments that are recognised in other comprehensive income.

Impairment loss on available for sale financial assets is recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayments and amortization and the current fair value, less impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to the application of the effective interest method are reflected as a component of interest income. If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized then the impairment loss is reversed, with the amount of reversal recognized in profit or loss. However, any subsequent recovery inthe fair value of an impaired available for sale equity security is recognized in other comprehensive income.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Held-to-maturity investments are measured at amortised cost. If an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years. Held-to-maturity investments are measured at amortised cost.

Initial recognition

All financial assetsand liabilities are recognised at fair value plus transaction costs. The best confirmation of fair value at initial recognition is transaction price. Gains or losses on initial recognition are reflected only if the difference between fair value and transaction price is confirmed by other actual and regular market transactions carried out with the same instruments or with such estimation of which the valuation technique is based on open market data.

All acquisitions and sales of financial instruments which are to be carried out on a regular basis, set by regulations or marketing agreements (acquisitions and sales carried out under regular transaction procedures) are recognised at the date of transaction.

Change in value of an asset which is measured at fair value between one date of committing to purchase the assets and settlement date, is recognised either in profit or loss (for assets classified at fair value through profit or loss), or in equity (for assets classified as available-for-sale).

Principles of fair value measurement

Fair value of financial instruments is based on their market price prevailing at the reporting period without deduction of transaction costs.

In case the market price is not available, the fair value of an instrument is determined using pricing or discounted cash flow models.

When using a discounted cash flow model, the determination of future cash flows is based on the best estimates of management, and the discount rate is represented by the market interest rate for similar instruments prevailing at the reporting period. When using pricing models, the inputs are based on average market data prevailing at the reporting period.

Subsequent measurement

After the initial recognition all available for sale investments, are measured at fair value except for any instruments which are not traded on an active market and for which fair value cannot be measured reliably; such instruments are measured at cost plus transactions costs less impairment losses.

Loans and accounts receivable and held-to-maturity investments, are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest method. Premium and discount, including initial transaction costs, are included in the carrying amount of the corresponding instrument and amortised using the effective interest method.

Impairment of financial assets

At each reporting period the Group measures whether there is any objective evidence of impairment of financial assets or group of financial assets. A financial asset or group of financial assets is considered to be impaired if and only if there is objective evidence of impairment as a result of one or more events which occurred after initial recognition of the asset and that loss event, had an impact on the estimated future cash flows from the financial asset or group of financial assets that can be reliably estimated.

Impairment evidence may comprise indicators that a debtor or group of debtors is in significant financial difficulties, is unable to repay the debt or makes inaccurate payments of interest or principal amount of debt, and also the probability of bankruptcy or any other financial reorganisation. In addition, such evidence includes other observable data indicating a decrease in expected cash flows from the financial asset which is subject to reliable measurement, for example, an overdue debt. For an investment in an equity security, a significant prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for a financial asset measured at amortised cost at both a specific asset and collective level. All individually significant assets are measured

for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risks characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial assets at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted using the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When an event occurring after at the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Derecognition

The financial assets are derecognised if the term of contractual rights for cash flows from financial assets expires, or the Group transfers all the significant risks and benefits from asset ownership.

(ii) Non - derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the trade date which is the date that the Group becomes a partyto the contractual provision for theinstrument. The Group classifies non-derivative financial liabilities into the other financial liability category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs using the effective interest method.

Other financial liabilities comprise loans and borrowings, bonds liabilities, bank overdrafts and trade and other payables.

(a) Loans and borrowings

Loans and borrowings are financial liabilities of the Group resulting from raising borrowings. Loans and borrowings are classified as short-term liabilities except for cases when the Group has vested right to defer the liabilities at least by 12 months from the reporting period.

Initial recognition

Financial liabilities are initially recognised at fair value adjusted for directly related transaction costs in case of loans and borrowings.

Subsequent measurement

Trade and other accounts payable initially recognised at fair value is subsequently accounted for at amortized value using the effective interest method.

Borrowings initially recognised at fair value of liability net of transaction costs are subsequently reported at amortised cost; any difference between the amount of received funds and amount of repayment is reported within interest expenses during the period in which borrowings were received under the effective interest method.

Derecognition

The financial liabilities are derecognised if the term of contractual obligations expires, contractual obligations fulfilled or agreement cancelled.

3.5 Bonds

Initial recognition

Financial liabilities are initially recognized at fair value adjusted for transaction costs that are directly attributable to the issue of the bond.

Subsequent measurement

After initial recognition bonds are measured at amortised cost using the effective interest rate method.

Derecognition

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, the difference in the respective carrying amounts is recognised in profit or loss.

3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is determined as the estimated selling price less estimated costs of completion and preliminary estimated distribution and selling costs. The cost of inventories is based on the first-in-first-out (FIFO) principle.

The cost of inventories comprises all expenses for acquisition, processing and other expenses incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods includes the cost of raw materials, direct labour and other production costs, and also corresponding part of production overheads.

The Group regularly reviews inventories to determine whether there are any indicators of damage, obsolescence, slow movement, or a decrease in net realisable price. When such events take place, the amount by which inventories are impaired, is recognised in profit or loss.

Impairment of inventories

At each reporting period, the Group assesses the necessity to impair obsolete and surplus inventory and supplies.

Cost of inventories may be irrecoverable if the realisable value for such inventories has decreased due to their damage, whole or partial obsolescence or resulting from changes in market prices. Cost of inventories may be irrecoverable if possible costs for completion or sale have increased.

Raw and other materials in inventories are not written-off below cost, if finished goods, in which they will be included, will be sold at cost or above. However, when decrease in price for raw materials indicates that cost of finished goods will exceed the net realisable value, raw materials are written-off to net realisation values.

3.7 Biological assets

The following groups of biological assets are distinguished by the Group:

- replacement poultry (non-current asset);
- commercial poultry (current asset);
- other biological assets (current asset);

(a) Non current assets - assets with useful life of more than a year. Age of livestock poultry is between 1 – 194 days old.

(b) Current assets - assets with useful life within one year. Age of livestock poultry is between 195 – 560 days old.

The Group performs a biological asset measurement at initial recognition and as at each reporting period, at fair value less any estimated expenses for sale, except in the cases, were fair value cannot be determined reliably. Costs to sell include all costs that would be necessary to sell the assets, including transportation costs.

The difference between the fair value less estimated costs to sell

is recognised in profit or loss.

The Group includes the following elements into cost of laying hens in the process of growing:

- Animal feed
- Depreciation of property, plant and equipment related to the process of growing
- Wages and salaries of personnel related to the process of growing
- Other expenses directly related to the process of growing

Determination of the fair value of biological assets

Due to an absence of an active market for laying hens in Ukraine, to determine the fair value of biological assets, the Group uses the discounted value of the asset's expected net cash flows.

Determination of the fair value of agricultural produce

Agricultural produce harvested from biological assets is measured at its fair value less estimated point-of-sale costs at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in the profit or loss in the period in which it arises.

3.8 Cash and cash equivalents

Cash and cash equivalents include cash at banks, cash in hand, cash in transit and issued letters of credit. The bank deposits are held without a specific maturity, are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short term commitments.

3.9 Impairment of non-current assets

The Group assesses at each reporting period the carrying value of its non-current assets to determine whether there is any objective evidence that non-current assets are impaired. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The expected recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell and its value in use. In estimating value in use, the future cash flows are discounted to present value using a pre-tax discount that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

If the expected recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) shall be reduced to its recoverable amount. That reduction is an impairment loss, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease. If the impairment loss is reversed subsequently, the carrying value of an asset (or cash-generating unit) increases to the revised and estimated amount of its recoverable amount, where increased carrying value does not exceed the carrying value which could be determined only in the case where no impairment loss for an asset (or cash-generating unit) was recognised in the previous years. Reversal of the impairment loss is recognised as profit immediately.

3.10 Value added tax (VAT)

There are two rates of value added taxes: 20% – on import and sales of goods and services in the territory of Ukraine and 0% - on export of goods and rendering of services and works outside Ukraine.

The VAT liability is equal to the total amount of VAT accrued during the reporting period and arises at the earlier of goods shipment to the customer or at the date of receipt of payment from the client.

VAT credit is the amount by which a taxpayer is entitled to reduce his/her VAT liabilities in the reporting period. The right to VAT credit arises on the earlier of the date of payment to supplier or the date of receipt of goods by the company.

The Group's entities apply the special VAT taxation treatment prescribed by the Tax Code of Ukraine, which entered into force on 1 January 2011, regarding the agricultural activities, which provides preferential VAT treatment to support agricultural producers.

For goods and services supplied at the 20% tax rate, revenue, expenses and assets are recognised net of VAT amount, unless:

- the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- receivables and payables that are stated including the value added tax.

The Group classifies VAT recoverable arising from its operating activities and its capital expenditures. The balance of VAT recoverable may be realised by the Group either through a cash refund from the state budget or by set off against VAT liabilities with the state budget in future periods.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

3.11 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting period. Current tax also includes any tax arising from dividends.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting period.

Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income.

3.12 Revenue recognition

Revenue includes the amount of compensation received or to be received for realisation of products and services in the course of the ordinary activities of the Group. Revenue is recognised net of value added tax, returns, trade discounts and intragroup transactions.

Revenue is recognised when persuasive evidence exists that the significant risks and rewards have been transferred to the customer, recovery of the consideration is probable, the associated cost and possible return of goods and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting period. The stage of completion is assessed by reference to surveys of work performed.

3.13 Finance income/expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying value of the financial asset or liability. Interest income is included in finance income to the statement of profit and loss and other comprehensive income. Foreign currencies gain and loss are reported on a net basis as either a finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.14 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A lease is classified as finance lease, when, according to lease terms, the lessee assumes all the significant risks and benefits associated with ownership of the relevant assets. All other leases are classified as operating leases.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of profit and loss and other comprehensive income on a straight line basis over the lease term.

Group as a lessor

Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.15 Distribution of dividends

The amount payable to the owners of the Company in the form of dividends is recognised as a liability in the financial statements of the Group in the period the dividends were approved by the owners of the Company.

3.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which necessarily requires significant time to be prepared for use in accordance with the group's intentions or for sale, are capitalised as the part of initial value of such asset. All other borrowing costs are expensed in profit or loss in the period they were incurred. Borrowing costs include interest payments and other expenses incurred by the Group related to borrowings.

3.17 Government grants

Recognition of government grants

The Group recognises government grantswhen received.

The Group recognises the government grants as other operating income in the same periods as the corresponding expenses, which they compensate, on a systematic basis:

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;
- All grants, related to assets not depreciated, such as a land site, shall be correlated by the Group with the expenses to fulfill the obligations. Where a grant in the form of provision of a land site is conditional on construction of a building on the site, the Group divides the recognition of the grant as other operating income over the whole useful life of the building;
- All grants, related to the amortised assets, shall be recognised by the Group as a decrease in the expenses for amortisation during the periods, when the amortisation of these assets is accrued.

Accounting for government grants for agricultural activities

The Group recognises unconditional state grants related to biological activities as income only in cases when such government grants are receivable. A contingent government grant, is recognised by the Group as income only after the fulfilment of respective conditions.

Return of the government grants

If subsidies are returned partially or completely, the amount to be returned shall be deducted from the remaining unused amount of the government subsidies. If an amount, exceeding the unused part of the government subsidies, is to be returned, the Group shall immediately reflect the amount of such excess as the expenses in the reporting period.

3.18 Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statements. Such liabilities are disclosed in the notes tothe consolidated financial statements, with the exception of when the probability of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed in the notes in such cases when there is a possibility of receiving economic benefits.

3.19 Provisions

A provision is a liability of uncertain amount or timing. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.20 Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received and the nominal value of share capital issued is transfered to share premium. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

3.21 Operating segments

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax assets and liabilities.

The Group is organised by reportable segments and this is the primary format for segmental reporting. Each segment provides products or services which are subject to risks and rewards that are different from those of other reportable segments.

3.22 Events after the reporting period

The Group adjusts the consolidated financial statements amounts if events after the reporting period demand adjustments. Events after the reporting period requiring adjustments of the consolidated financial statements amounts relate to the confirmation or contradiction of the circumstances prevailing at the reporting period, as well as estimates and judgments of management, which are made under conditions of uncertainty and incompleteness of information at the reporting period.

If non-adjusting events that occurred after the reporting period are significant, non-disclosure of information about them may affect the economic decisions of users which are made on the basis of these financial statements. Accordingly, the Group discloses the nature of such events and estimates of their financial effect or states the impossibility of such estimate for each material category of non-adjusting events that occurred after the reporting period.

4. Significant accounting judgements and estimates

In preparing theseconsolidated financial statements, Management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertaintiesthat have a significant risk of resulting in a material adjustment are disclosed below:

4.1 Basis of consolidation (transactions under common control)

Control is the ability to govern an entity's financial and operating policies with the aim of receiving benefits from its activities. Where control over subsidiaries and the parent company belongs to the ultimate beneficial owner, these transactions are considered to be combinations of business under common control, which are outside the scope of IFRS3: "Business combinations".

4.2 Fair value less costs to sell of biological assets

Biological assets are recorded at fair values less costs to sell. The Group estimates the fair values of biological assets based on the following key assumptions:

- Average production of eggs over lifecycle of poultry
- Average productive life of livestock poultry
- Estimated future sales price
- Projected production costs and costs to sell
- Discount rate
- Mortality rate

4.3 Useful lives of property, plant and equipment

The Group estimates the remaining useful life of property, plant and equipment at least once a year at the end of the fiscal year. Should the expectations differ from previous estimates, changes are accounted for as changes in accounting estimates in accordance with IAS 8 " Accounting Policy, Changes in Accounting Estimates and Errors". These estimates may have a significant effect on the carrying value of property, plant and equipment and depreciation recognised in profit or loss.

4.4 Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is the most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

4.5 VAT recoverable

Management classified VAT recoverable balance as current based on expectations that will be realised within twelve months from the reporting period. In addition management assessed whether the allowance for irrecoverable VAT needs to be created.

In making this assessment, management considered past history of receiving VAT refunds from the state budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, management based its estimates on detailed projections of expected excess of VAT input over VAT output in the normal course of business.

4.6 Impairment of receivables

The Group reviews its trade and other receivables for evidence of their recoverability.

The Group provides for doubtful debts to cover potential losses when a customer may be unable to make necessary payments. In assessing the adequacy of provision for doubtful debts, Management considers the current economic conditions in general, the age of accounts receivable, the Group's experience in writing off of receivables, solvency of customers and changes in conditions of settlements. Economic changes, industry situation or financial position of separate customers may result in adjustments related to the amount of provision for doubtful debts reflected in the consolidated financial statements as impairments of receivables.

Group approach is used in calculating the impairment of receivables:

Group approach - receivables are grouped, and turnover is analysed for the group as a whole, rather than on each individual debt separately. Based on the analysis of accounts receivable according to the previous reporting period data for the share of uncollectible receivables, interest is calculated for calculation of reserve for doubtful debt of current reporting period. Subsequently, to calculate the provision of doubtful debt of current reporting period, interest is applied to outstanding balance for the current period, less the amount of accounts receivable, provision for which is calculated on an individual basis.

The amount of impairment in respect of doubtful debt is reported in the statement of comprehensive income in other operating expenses.

Bad debts which are recovered are written-off from the consolidated statement of financial position along with a corresponding adjustment to the provision for doubtful debts, and the recovered amount is recognised in profit or loss.

The Group does not accrue provisions for doubtful debts on balances with intragroup parties regardless of the origin date of current debt, as these would be eliminated on consolidation.

4.7 Legal proceedings

The Group's management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities, related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obligation. Due to uncertainty inherent to the process of estimation, actual expenses may differ from the initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

4.8 Impairment of obsolete and surplus inventory

At each reporting period, the Group assesses the necessity to impair obsolete and surplus inventory. If such necessity exists, the reserve is calculated and necessary adjustments are made.

Estimation of the amount of impairment against obsolete and surplus inventory is based on the type of inventory, inventory turnover, the date of balance origination and estimated shelf life of particular type of inventory.

4.9 Deferred tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective regions in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group companies' domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Deferred tax assets are reviewed at each reporting period and reduced to the extent where no longer exists any probability for sufficient taxable profit to be received, which enables realising the whole number of or a part of deferred tax assets. Estimate of probability includes judgments, which are based on expected characteristics of activity. To estimate the probability of utilising deferred tax assets in future, various factors are used, including previous years' results, operating plans, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated utilisation of deferred tax assets be reduced, such reduction is to be recognised in profit or loss.

4.10 Contingent liabilities

Contingent liabilities are determined by the occurrence or non-occurrence of one or more future events. Measurement of contingent liabilities is based on Management's judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which is open to challenge by the tax authorities. Additionally, the impact on the Group of the economic and politicalsituation in Ukraine (note 39).

4.11 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as

broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board of Directors.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Futher information about the assumption made in measuring fair values is included in relevant notes.

4.12 Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued throughout the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert 75% of foreign currency proceeds to local currency, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst, Group's management considers that all necessary actions are being performed to maintain financial stability of the Group in current circumstances, continuation of the current unstable business environment may adversely affect results and financial position of the Group, in a manner not currently determinable. These consolidated financial statements reflect current management estimation of Ukrainian business environment influence on the financial position of the Group. Situation development may differ from management expectations. These financial statements were not adjusted to reflect events after the reporting period.

5. Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
Cost								
Balance at 1 January 2016	1 153	259 442	55 073	80 861	2 446	1 322	57 315	457 612
Acquisitions	25	196	135	769	309	44	14 181	15 659
Disposals	(4)	(4)	(319)	(2)	(24)	(12)	(648)	(1 013)
Internal transfers	-	1 032	(4 420)	7 556	-	1	(4 169)	-
Foreign currency translation	(137)	(29 289)	(5 828)	(11 508)	(304)	(157)	(6 131)	(53 354)
Reclassification	-	(20 130)	(5 861)	25 069	(5)	-	927	-
Balance at 31 December 2016	1 037	211 247	38 780	102 745	2 422	1 198	61 475	418 904
Accumulated depreciation								
Balance at 1 January 2016	-	24 802	9 489	16 051	1 455	876	-	52 673
Depreciation charge	-	6 904	2 762	5 646	207	138	-	15 657
Depreciation eliminated on disposal	-	(1)	(106)	-	(21)	(11)	-	(139)
Foreign currency translation	-	(3 190)	(1 042)	(2 582)	(182)	(112)	-	(7 108)
Reclassification	-	(2 148)	(3 816)	5 964	-	-	-	-
Balance at 31 December 2016	-	26 367	7 287	25 079	1 459	891	-	61 083
Net book value								
Balance at 31 December 2016	1 037	184 880	31 493	77 666	963	307	61 475	357 821

	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
Cost								
Balance at 1 January 2015	1 756	360 710	85 479	84 338	3 114	1 730	98 854	635 981
Acquisitions of subsidiary	-	4 000	3	-	428	121	-	4 552
Acquisitions	-	1 453	1 197	122	32	93	34 167	37 064
Disposals	-	(13)	(162)	(12)	(42)	(52)	(19)	(300)
Internal transfers	-	18 276	(2 266)	28 520	22	49	(44 601)	-
Foreign currency translation	(603)	(125 941)	(29 198)	(31 460)	(1 108)	(613)	(30 756)	(219 679)
Reclassification	-	957	20	(647)	-	(6)	(324)	-
Balance at 31 December 2015	1 153	259 442	55 073	80 861	2 446	1 322	57 321	457 618
Accumulated depreciation								
Balance at 1 January 2015	-	24 327	9 124	19 571	1 897	1 140	-	56 059
Depreciation charge	-	9 200	4 794	3 172	268	194	-	17 628
Depreciation eliminated on disposal	-	(4)	(104)	(2)	(38)	(46)	-	(194)
Foreign currency translation	-	(9 223)	(3 478)	(7 031)	(671)	(402)	-	(20 805)
Reclassification	-	509	(845)	345	-	(9)	-	-
Balance at 31 December 2015	-	24 809	9 491	16 055	1 456	877	-	52 688
Net book value								
Balance at 31 December 2015	1 153	234 633	45 582	64 806	990	445	57 321	404 930
Net book value								
Balance at 1 January 2015	1 756	336 383	76 355	64 767	1 217	590	98 854	579 922

As at 31 December 2016 and 31 December 2015 the property, plant and equipment that was used as security for long-term and short-term loans was as follows:

	Carrying value of security as at	
	31 December 2016	31 December 2015
Buildings and structures	35 377	25 981
Machinery and equipment	1 160	9 614
Equipment for biological assets	23 784	5 268
Land	1 025	-
Vehicles	-	46
Other equipment	-	1
Assets under construction-in-progress and uninstalled equipment	-	282
	61 346	41 192

As at 31 December 2016 and 31 December 2015 the net book value of property, plant and equipment which were acquired under finance leases amounted to USD 28 thousand and USD 42 thousand respectively.

6. Biological assets

	Note	31 December 2016	31 December 2015
Non-current biological assets			
Replacement poultry	a), b)	14 273	13 403
		14 273	13 403
Current biological assets			
Commercial poultry	a), b)	7 755	13 736
		7 755	13 736
Total		22 028	27 139

a) Commercial poultry and replacement poultry were as follows:

	31 December 2016		31 December 2015	
	Number, thousand head	Fair value	Number, thousand head	Fair value
Loman	13 356	21 879	11 041	22 576
Hy-Line	-	-	1 094	1 374
Hisex	-	-	73	9
Brown Nick	-	-	1 000	2 113
Decalb	125	94	202	463
Tetra	77	55	197	604
	13 558	22 028	13 607	27 139

b) Reconciliation of commercial and replacement poultry fair value was as follows:

Balance at 1 January 2015	49 865
Acquisitions	5 068
Increase in value as a result of increase in weight/number	54 941
Net change in fair value	1 391
Decrease in value resulting from assets disposal	(6 490)
Effect from translation into presentation currency	(16 544)
Decrease in value resulting from hens slaughtering	(60 969)
Other changes	(122)
Balance at 31 December 2015	27 139
Balance at 1 January 2016	27 139
Acquisitions	4 090
Increase in value as a result of increase in weight/number	45 398
Net change in fair value	(2 232)
Decrease in value resulting from assets disposal	(2 997)
Effect from translation into presentation currency	(3 060)
Decrease in value resulting from hens slaughtering	(46 217)
Other changes	(93)
Balance at 31 December 2016	22 028

Due to the absence of an active market for laying hen in Ukraine to determine the fair value of biological assets, the Group uses the discounted net present value of future net cash flows expected from the biological assets. As a discount rate, the rate of 26,13% prevailing as at 31 December 2016 was applied (for the year ended 31 December 2015: 36,94%).

The line item "Other changes" includes hen mortality, discarding and utilisation of poultry.

Regulatory and environmental risk

The Group is subject to laws and regulation in Ukraine. The Group has established environmental policies and procedures aimed at compliance with local environment and other laws.

7. Held to maturity investments

Held to maturity investments as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
VAT government bonds	7 664	13 025
Discount VAT government bonds	(1 964)	(3 768)
	5 700	9 257
Coupon receivable	409	604

During the year 2014 the Group's management decided to voluntarily obtain VAT government bonds as a settlement of VAT refundable. These bonds bear a semi-annual interest of 9,5% and mature in 2019.

8. Taxes recoverable and prepaid

Taxes recoverable and prepaid as at 31 December 2016 and 31 December 2015 were as follows:

	Note	31 December 2016	31 December 2015
VAT settlements	a)	8 403	11 782
Other taxes prepaid		76	1 076
		8 479	12 858

a) VAT settlements related to VAT recoverable arising from operating activities and capital expenditure, is subject to:

- cash refund through release of budgetary funds by the Government;
- settlement of future tax liabilities of the entity under this tax within non-agricultural transactions.

The VAT settlements are receivable within one year based on the prior years' pattern, history of cash refunds and expectations that funds will be realised within twelve months from the reporting period.

9. Inventories

Inventories as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Raw and basic materials	20 103	38 733
Work-in-progress	281	51
Agricultural produce	1 685	356
Finished goods	22 475	8 357
Package and packing materials	5 546	7 904
Goods for resale	10 070	1 562
Other inventories	1 984	1 186
	62 144	58 149

Raw and basic materials mainly consist of grains and mixed fodder inventories.

The Group produced shell eggs in the quantity of 2 495 757 032 (2015: 3 434 218 812 items) which have fair value amounted to USD 131 891 thousand (2015: USD 191 935 thousand).

The amout of inventories written - off for the year ended 31 December 2016 was USD 415 thousand (2015: USD 37 326 thousand).

10. Trade accounts receivable, net

Trade accounts reveivable as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Trade receivables-gross	91 115	94 295
Provision for doubtful debts	(50 487)	(37 630)
	40 628	56 665

As at 31 December 2016 an amount of USD 9 135 thousand or 22,5% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2015–see note 37).

The fair values of trade accounts receivable due within one year approximate to their carrying amounts as presented above.

The exposure of the Group to credit risk and impairment losses in relation to trade accounts receivable is reported in note 37 to the consolidated financial statements.

11. Prepayments and other current assets, net

Prepayments and other current assets as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Prepayments	9 590	12 738
Provision for doubtful debts	(4 139)	(4 643)
Other non-trade accounts receivable	5 129	8 590
Current portion of VAT bonds	3 832	4 342
	14 412	21 027

The overall decrease in prepayments and other current assets is associated with the change of the Group's policy for procurement of grain due to the unstable situation in Ukraine.

The exposure of the Group to credit risk and impairment losses in relation to prepayments and other current assets is reported in note 37 to the consolidated financial statements.

12. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Cash in banks	12 570	31 301
Cash in hand	-	6
Cash and cash equivalents represented in consolidated statement of cash flows	12 570	31 307

For the year ended 31 December 2015 an amount of USD 28 190 thousand was impaired as a result of Finansova Iniciatyva Bank being placed under liquidation (note 28).

The exposure of the Group to credit risk and impairment losses and to liquidity risk in relation to cash and cash equivalents is reported in note 37to the consolidated financial statements.

13. Share capital

	31 December 2016		31 December 2015	
	Number of shares	Share capital, USD ths	Number of shares	Share capital, USD ths
Authorised				
Ordinary shares Euro 0,10 each	6 500 000	908	6 500 000	908
Issued and fully paid				
Balance at 31 December	6 387 185	836	6 387 185	836

On 22 April 2010 the Company increased its authorized share capital by 1 500 000 ordinary shares of EUR 0,10 per share.

In May and June 2010 the Company issued 1 387 185 ordinary shares with nominal value EUR 0,10 per share.

In respect of this share issue, the Company generated net share premium amounting to USD 201 164 thousand (net of share issue costs of USD 6 914 thousand) (10 GDR are equal to 1 ordinary share) as a result of initial placement of 14 375 000 GDR on the main market of London Stock Exchange, out of which the 13 871 859 GDR were issued.

14. Long-term loans

Long-term loans as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Long-term bank loans in national currency	47 976	913
Long-term bank loans in foreign currency	76 756	82 156
Total loans	124 732	83 069
Commodity credit	327	369
	125 059	83 438
Current portion of non-current liabilities for bank loans in national currency	(806)	(456)
Current portion of non-current liabilities for bank loans in foreign currency	(30 329)	(18 559)
	93 924	64 423

a) As at 31 December 2016 and 31 December 2015 the long-term bank loans by maturities were as follows:

	31 December 2016	31 December 2015
Less than one year	31 134	18 308
From 1 to 2 years	15 998	17 675
From 2 to 3 years	17 038	13 259
From 3 to 4 years	14 507	10 817
From 4 to 5 years	14 302	8 438
Over 5 years	31 753	14 572
	124 732	83 069

b) As at 31 December 2016 and 31 December 2015the long-term bank loans by currencies were as follows:

	31 December 2016	31 December 2015
Long-term bank loans in UAH	47 976	913
Long-term bank loans in EUR	76 756	82 156
	124 732	83 069

c) As at 31 December 2016 and 31 December 2015 the interest rates for long-term bank loans were as follows:

	31 December 2016	31 December 2015
Long-term bank loans denominated in UAH	12,5%-18%	18%
Long-term bank loans in EUR	1,5%+EURIBOR-2,7%+EURIBOR	1,5%+EURIBOR-2,7%+EURIBOR

d) Commodity credit in the amount of USD 327 thousand (2015: USD 369 thousand) is represented by a liability of the Group's companies, OJSC "Volnovahskyi Kombinat Khilboprodiktiv" and OJSC "Ptakhohospodarstvo Chervonyi Prapor" for an interest-free budget loan received in the years 1995-1998 for the acquisition of agricultural products under a Government contract. In case of default after the maturity of the loan the Group's companies are subject to fine and, according to Ukrainian laws, is set equal to compulsory payments in the State budget of Ukraine, applying sanctions stipulated by the laws with regard to late payment of taxes and making of non-tax payments. The commodity credit does not have a maturity date.

The exposure of the Group to interest rate risk and liquidity risk in relation to loans and borrowings is reported in note 37 to the consolidated financial statements.

15. Bond liabilities

On 29 October 2010, the Company issued 2 000 five year non-convertible bonds with par value equal to USD 100 000 each. The Notes have been admitted to the official list of the UK listing Authority and to trading on London Stock Exchange plc's regulated market with effect from 1 November 2010. The USD 200 000 000 10% Notes, bear interest from 29 October 2010 at a rate of 10% per annum payable semi annually in arrears on 29 April and 29 October in each year, commencing on 29 April 2011. The maturity date is 29 October 2015 and the placement price was 98,093% of the principal amount of the Notes.

Considering different options regarding the maturity of the bonds, the Company has successfully completed a restructuring of its USD 200m 10% Notes due in 29 October 2015 via a Scheme of Arrangement (the "Scheme"). The Scheme was approved by a majority in number representing more than 75% in value of creditors present and voting either in person or by proxy at the Scheme Meeting held on 22 October 2015. Following this, by an order dated 26 October 2015, the High Court of Justice of England and Wales sanctioned the Scheme.

As a result of the Scheme the following key amendments were made to the terms and conditions of the Notes:

- *Maturity:* Amended to 29 October 2018, 100% of principal to be redeemed at this date.
- *Coupon:* The 5% coupon will be payable on 29 October 2015 (representing the semi-annual payment of the existing 10% coupon), with 2% to be paid in cash as a regular coupon payment and 3% to be paid as payment in kind ("PIK"). The 10% coupon will be payable semi-annually in arrears on 29 April and 29 October of each year, commencing 29 April 2016, but subject to the following PIK and cash payment provisions:

Interest payment date	PIK Interest %	Cash Interest %
29.04.16	75	25
29.10.16	75	25
29.04.17	50	50
29.10.17	50	50
29.04.18	25	75
29.10.18	0	100

The Company appointed UBS Limited as sole solicitation agent, Latham & Watkins as legal counsel, and DFKing as information and tabulation agent amongst other consultants to assist it in the implementation of the Scheme.

Surety providers of the bonds following the Scheme were as follows: (1) LLC Torgivelniy Budynok Bohodukhivska Ptahofabryka, (2) PJSC Agroholding Avangard (PJSC Ptakhohospodarstvo Chervonyi Prapor), (3) LLC Imperovo Foods, (4) PSPC Interbusiness, (5) LLC Slovyany.

The exposure of the Group to interest rate risk and liquidity risk in relation to bond liabilities is reported in note 37 to the consolidated financial statements.

16. Short-term loans

Short-term loans as at 31 December 2016 and 31 December 2015 were as follows:

	Note	31 December 2016	31 December 2015
Short-term bank loans in foreign currency	a), b), c)	-	50 000
		-	50 000

a) As at 31 December 2016 and 31 December 2015 the short-term bank loans by maturity were as follows:

	Note	31 December 2016	31 December 2015
From 6 to 12 months		-	50 000
		-	50 000

b) As at 31 December 2016 and 31 December 2015 the short-term bank loans by currencies were as follows:

	Note	31 December 2016	31 December 2015
Short-term bank loans in USD		-	50 000
		-	50 000

c) Short-term bank loans interest rate by currency as at 31 December 2016 and 31 December 2015 were as follows:

	Note	31 December 2016	31 December 2015
Short-term bank loans denominated in USD		-	50 000
		-	50 000

The exposure of the Group to interest rate risk and liquidity risk in relation to short term borrowings is reported in note 37 to the consolidated financial statements.

17.Securities

Long-term loans (Note 14) and short-term loans (Note 16) as at 31 December 2016 and 31 December 2015 were secured on assets as follows:

	31 December 2016	31 December 2015
Buildings and structures	35 377	25 981
Machinery and equipment	1 160	9 614
Equipment for biological assets	23 784	5 268
Land	1 025	-
Vehicles	-	46
Other equipment	-	1
Assets under construction-in-progress and uninstalled equipment	-	282
Total	61 346	41 192

As at 31 December 2016 and 31 December 2015 surety providers of the liabilities of Ukr Land Farming Plc were as follows: LLC Imperovo Foods, PSPC Interbusiness, PJSC Agroholding Avangard (PJSC Ptakhohospodarstvo Chervonyi Prapor), LLC Slovyany, LLC Torgivenlniy Budynok Bohodukhivska Ptakhofabryka.

18. Current portion of non-current financial liabilities

The current portion of non-current financial liabilities as at 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016	31 December 2015
Trade and other payables		
Deferred income (current portion)	89	94
Financial liabilities		
Current portion of finance lease liabilities	-	13
VAT included in current portion of finance lease liabilities	-	3
Current portion of non-current liabilities for bank loans in foreign currency	30 329	18 559
Current portion of non-current liabilities for bank loans in national currency	806	456
	31 224	19 125

The exposure of the Group to liquidity risk in relation to non-current financial liability is reported in note 37 to the consolidated financial statements.

19. Deferred tax assets and liabilities, income tax expense

The principal components of deferred tax assets and liabilities before netting off on a company basis as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Influence of temporary differences on deferred tax assets		
Property, plant and equipment, non-current assets	3 755	1 499
Provisions	1 558	852
Total deferred tax assets	5 313	2 351
Influence of temporary differences on deferred tax liabilities		
Deferred expenses	(1)	-
Total deferred tax liabilities	(1)	-
Net deferred tax assets	5 312	2 351
Total deferred tax assets	5 663	2 761
Total deferred tax liabilities	(351)	(410)
Net deferred tax assets	5 312	2 351

Principal components of income tax expense

As at 31 December 2016 and 31 December 2015the rate of income tax in Ukraine was equal to 18%.

	31 December 2016	31 December 2015
Current income tax	(124)	(18)
Deferred tax asset	3 445	898
Income tax credit for the year	3 321	880

Reconciliation of deferred tax liabilities

	31 December 2016	31 December 2015
Balance as at 1 January	2 351	2 463
Deferred tax credit	3 445	898
Effect of translation into presentation currency	(484)	(1 010)
Balance as at 31 December	5 312	2 351

Reconciliation between income tax expense and accounting (loss)/profit multiplied by the rate of income tax

	31 December 2016	31 December 2015
Accounting loss before tax	(59 957)	(159 270)
Less accounting profit of the companies being fixed agricultural tax payers	15 495	(19 440)
	(44 462)	(178 710)
Accounting loss of the companies being income tax payers at the rate 12,5%	(41 370)	(60 964)
Accounting loss of the companies being income tax payers at the rate 18%	(3 092)	(117 746)
	(44 462)	(178 710)
Income tax, taxable at the rate of 12,5%	(5 171)	(7 621)
Income tax, taxable at the rate of 18%	(557)	(21 194)
Tax effect of allowances and income not subject to tax	9 049	29 695
Tax as per consolidated statement of profit or loss and other comprehensive income - credit	3 321	880
As at 1 January 2015		48
Income tax accrued for the year		(18)
Income tax paid for the year		63
Effect of translation into presentation currency		(21)
As at 31 December 2015/ 1 January 2016		72
Income tax accrued for the year		(124)
Income tax paid for the year		43
Effect of translation into presentation currency		50
As at 31 December 2016		41

20. Trade payables

Trade payables as at 31 December 2016 and 31 December 2015 were as follows:

	Note	31 December 2016	31 December 2015
Trade payables		2 955	3 218
Short-term notes issued	a)	107	157
		3 062	3 375

a) As at 31 December 2016 and 31 December 2015 the short-term notes issued were represented by promissory, non interest-bearing, notes.

The exposure of the Group to liquidity risk in relation to trade payables is reported in note 37 to the consolidated financial statements.

21. Other accounts payable

Other accounts payable as at 31 December 2016 and 31 December 2015 were as follows:

	Note	31 December 2016	31 December 2015
Accrued expenses for future employee benefits		280	408
Other accrued expenses		208	217
Wages and salaries and related taxes liabilities		512	209
Other taxes and compulsory payments liabilities	a)	430	11 006
Accounts payable for property, plant and equipment		214	160
Advances received from customers	b)	389	528
Interest payable on loans		6 042	2 677
Accrued coupon on bonds		1 919	896
Other payables	c)	2 444	1 857
		12 438	17 958

a) Other taxes and compulsory payments liabilities mainly comprises of liabilities for VAT and community charges.

b) Advances received from customers consist of prepayments for the sale of agriculture products and finished goods from buyers.

c) Other payables consist of payables for electricity, gas, water, security services, lease and other.

The exposure of the Group to liquidity risk in relation to other accounts payable is reported in note 37 to the consolidated financial statements.

22. (Loss)/profit from operating activities

(Loss)/profit from operating activities is stated after (charging)/crediting the following items:

	Note	31 December 2016	31 December 2015
Depreciation of property, plant and equipment	5	(15 659)	(17 628)
Income/(loss) on disposal of non current assets	28	150	(95)
Provisions for doubtful debts and amounts written off	28	(18 582)	(40 156)
Payroll and related expenses	32	(7 785)	(8 787)
Independent auditors' remuneration for statutory audit of annual accounts		(603)	(394)

23. Revenue

Sales revenue for the year ended 31 December 2016 and 31 D ecember 2015was as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue from finished goods	140 761	229 299
Revenue from goods sold and services rendered	50 543	625
	191 304	229 924

For the year ended 31 December 2016 USD 45 119 thousand (2015: USD 40 886 thousand) or 23,6% (2015: 17,8%) from the Group's revenue refers to the sales transactions carried out with one of the Group's clients (note 37).

24. Cost of sales

Cost of sales for the year ended 31 December 2016 and 31December 2015 was as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Cost of finished goods sold	25	(127 930)	(208 906)
Cost of goods sold and services rendered		(47 945)	(284)
		(175 875)	(209 190)

25. Cost of sales by elements

The cost of finished goods sold (Note 24) for the year ended 31 December 2016 and 31 December 2015 was as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Raw materials		(101 568)	(158 819)
Payroll of production personnel and related taxes	32	(3 705)	(5 173)
Depreciation		(15 393)	(17 295)
Services provided by third parties		(7 173)	(27 447)
Other expenses		(91)	(172)
	24	(127 930)	(208 906)

Services provided by third parties consists of expenses for electricity, storage services, gas, water, current repairs of production premises, sanitary cleaning services, veterinary services and other.

26. General administrative expenses

General administrative expenses for the year ended 31 December 2016 and 31 December 2015 were as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Salaries and wages of administrative personnel	32	(3 641)	(3 180)
Services provided by third parties		(2 936)	(3 126)
Depreciation		(98)	(97)
Repairs and maintenance costs		(264)	(49)
Tax expenses, except for income tax		(316)	(196)
Material usage		(236)	(308)
Other expenses		(395)	(239)
		(7 886)	(7 195)

27. Distribution expenses

Distribution expenses for the year ended 31 December 2016 and 31 December 2015 were as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Salaries and wages of distribution personnel	32	(439)	(434)
Transport expenses		(4 332)	(4 431)
Depreciation		(165)	(237)
Services provided by third parties		(3 492)	(5 573)
Packing materials		(47)	(28)
Repairs and maintenance costs		(5)	(13)
Other expenses		(78)	(57)
		(8 558)	(10 773)

28. Other operating expenses

Other operating expenses for the year ended 31 December 2016 and 31 December 2015 were as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit/(loss) on disposal of current assets		14	(20)
Income/(loss) on disposal of non current assets		150	(95)
Impairment of current assets		(709)	(39 869)
Impairment of funds	a)	-	(28 190)

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Gain realised from writing-off of accounts payable		262	178
Foreign currency sale (loss)/income		(51)	22
Provision for doubtful debts and amounts written off		(18 582)	(40 156)
Fines, penalties recognized		(86)	(901)
Other income		1 895	(7 435)
		(17 107)	(116 466)

a) The above amount was a result of the categorisation of Finansova Iniciatyva Bank by the National Bank of Ukraine as insolvent (note 12).

29.Finance costs

Finance costs for the year ended 31 December 2016 and 31 December 2015 was as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest payable on loans	(7 945)	(7 837)
Total finance expenses on loans	(7 945)	(7 837)
Finance expenses on finance lease	(12)	(19)
Finance expenses on bonds	(21 241)	(20 110)
Other finance expenses	(2 082)	(4 562)
	(31 280)	(32 528)

30. Finance income

Finance income for the year ended 31 December 2016 and 31 December 2015 includes the interest income from VAT government bonds and placement of deposits, amounted to USD 2 825 thousand and USD 3 978 thousand respectively.

31. Government grants received

31.1 Income from government grants and incentives

Income from government grants and incentives received for the year ended 31 December 2016 and 31 December 2015 was as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Amortization of deferred income on government grants	a)	98	107
		98	107

a) *Partial compensation of complex agricultural equipment cost*

Enterprises of the Group received partial compensation of complex agricultural equipment cost during the years 2004-2010 according to Ukrainian laws. The total amount of compensations received for the above mentioned period is UAH 60 608 thousand. Those grants were recognised as deferred income and reflected within the "Deferred income" item in the consolidated statement of financial position. The deferred income is amortised over the estimate useful life of the relevant asset (generally 25 years) and the amortisation is reflected in the above table.

31.2 Income from special VAT treatment

Income from special VAT treatment received for the year ended 31 December 2016 and 31 December 2015 amounted to USD 5 376 thousand and USD 25 098thousand respectively.

According to the Tax Code of Ukraine agricultural enterprises (those with a relative value of agricultural products in total sales not less than 75% for the previous 12 months) have a tax benefit for VAT on agriculture transactions. Positive VAT balance (positive difference between tax liability and tax credit) from agricultural transactions shall be recognized as government grants on special VAT treatment and transferred to special current account in a financial institution and negative balance (negative difference between tax liability and tax credit) is not subject to budgetary refund and credited to the tax credit for the next reporting (tax) period.

32. Payroll and related taxes

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Salary		(4 882)	(5 510)
Contributions to state funds		(2 903)	(3 277)
		(7 785)	(8 787)
Payroll of production personnel and related taxes	25	(3 705)	(5 173)
Salaries and wages of administrative personnel	26	(3 641)	(3 180)
Salaries and wages of distribution personnel	27	(439)	(434)
		(7 785)	(8 787)
Average number of employees, persons		2 036	1 787

33. Related party balances and transactions

The Company is controlled by Oleg Bakhmatyuk, who directly or indirectly owns 77,5% of the Company's share capital. The remaining 22,5% of the shares are widely owned.

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise 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.

According to these criteria the related parties of the Group are divided into the following categories:

A. Key management personnel;

B. Companies having the same top management;

C. Companies in which the Group's owners have an equity interest;

D. Companies in which activities are significantly influenced by the Group's owners.

Salary costs of key management personnel for the year ended 31 December 2016 and 31 December 2015 were as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Salary	919	808
Contributions to state funds	118	205
	1 037	1 013

Outstanding amounts of the Group for transactions with related parties as at 31 December 2016 and 31 December 2015 were as follows:

	Outstanding balances with related parties as at	
	31 December 2016	31 December 2015
Prepayments and other current assets, net		
C. Companies in which the Group's owners have an equity interest;	-	1
D. Companies in which activities are significantly influenced by the Group's owners	5 499	11 136
	5 499	11 137
Trade accounts receivable		
D. Companies in which activities are significantly influenced by the Group's owners	154	2 151
	154	2 151
Dividends payable		
D. Companies in which activities are significantly influenced by the Group's owners	22 892	22 892
	22 892	22 892
Long-term finance lease		
D. Companies in which activities are significantly influenced by the Group's owners	3	28
	3	28
Current portion of non-current liabilities		
D. Companies in which activities are significantly influenced by the Group's owners	-	16
	-	16
Trade accounts payable		
D. Companies in which activities are significantly influenced by the Group's owners	-	2
	-	2
Other current liabilities		
C. Companies in which the Group's owners have an equity interest;	-	48
D. Companies in which activities are significantly influenced by the Group's owners	2	5
	2	53

On 2nd July 2013 UkrLandFarming Plc acquired a direct shareholding percentage of 7,11% in the share capital of LLC Imperovo Foods partially through contribution of technological equipment for elevators.

From 2nd July 2013 therefafter the share capital of LLC Imperovo Foods was increased through contributions from other Group companies, therefore the direct shareholding percentage of UkrLandFarming Plc was decreased to 3,17% at 31 December 2014.

In 2015 the share capital of LLC Imperovo Foods was increased, therefore the direct shareholding percentage of UkrLandFarming

Plc at 31 December 2015 was increased to 3,56%.

As at 31 December 2016 Prepayments and other current assets, (net) include unpaid contribution to the share capital of LLC Imperovo Foods in the amount ofUSD 3 069thousand (31 December 2015: USD 6 269 thousand).

The Group's transactions with related parties for the year ended 31 December 2016 and 31 December 2015 were as follows:

	Transactions with related parties for the year ended	
	31 December 2016	31 December 2015
Revenue		
D. Companies in which activities are significantly influenced by the Group's owners	52 820	2 641
	52 820	2 641
General administrative expenses		
D. Companies in which activities are significantly influenced by the Group's owners	(12)	(49)
	(12)	(49)
Distribution expenses		
D. Companies in which activities are significantly influenced by the Group's owners	(4 870)	(4 425)
	(4 870)	(4 425)
Other operating income/(expenses), net		
C. Companies in which the Group's owners have an equity interest;	-	(1)
D. Companies in which activities are significantly influenced by the Group's owners	938	(27 905)
	938	(27 906)
Finance income		
D. Companies in which activities are significantly influenced by the Group's owners	-	29
	-	29
Finance costs		
D. Companies in which activities are significantly influenced by the Group's owners	-	(15)
	-	(15)

For the year ended 31 December 2016 and 31 December 2015 purchases of goods, transportation, slaughtering and rent services were provided to the Group by related parties in the amount of USD 60 334 thousand and USD 5 635 thousand respectively. All those goods and services were bought and provided on market terms.

34. Operating segments

A reportable segment is a separable component of a business entity that produces goods or provides services to individuals (or groups of related products or services) in a particular economic environment that is subject to risks and generate revenues other than risks and income of those components that are peculiar to other reportable segments.

For the purpose of management, the Group is divided into the following reportable segments on the basis of produced goods and rendered services, and consists of the following 5 reportable segments:

- shell eggs - breeding of industrial laying hens, production and sale of shell eggs;
- poultry - incubation (production and sale of baby chicks), breeding of young birds for sale, as well as sale of birds for slaughter;
- animal feed - production and sale of feeds;
- egg products - processing and sale of egg products;
- other activities - including sale of goods and services, sale of poultry meat and by-products, sale of plant production, sale of poultry manure etc.

Management monitors the operating results of each of the units separately for the purposes of making decisions about resources allocation and evaluation of operating results. The results of segments' activities are measured on the basis of operating profit or loss, its measurement is carried out accordingly to measurement of operating profit or loss in the consolidated financial statements.

Reportable segment information for the year ended 31 December 2016 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	191 954	26 145	83 361	50 291	52 063	-	403 814
Intra-group elimination	(112 172)	(17 443)	(81 614)	-	(1 281)	-	(212 510)
Revenue from external buyers	79 782	8 702	1 747	50 291	50 783	-	191 304
Income from revaluation of biological assets at fair value	(3 567)	1 335	-	-	-	-	(2 232)
Other operating expenses	(13 905)	(265)	1 503	(4 340)	(100)	-	(17 107)
Income from government grants and incentives	96	2	-	-	-	-	98
OPERATING (LOSS)/PROFIT	(12 317)	(403)	372	(1 630)	(902)	-	(14 880)
Finance income	252	-	-	2 536	37	-	2 825
Finance costs,	(148)	-	-	(6 148)	(24 984)	-	(31 280)
including:							
Interest payable on loans	(148)	-	-	(6 123)	(1 674)	-	(7 945)
Income tax (expense)/credit	-	-	(136)	3 517	(60)	-	3 321
NET (LOSS)/PROFIT FOR THE YEAR	(12 216)	(477)	236	(3 414)	(40 765)	-	(56 636)
TOTAL ASSETS	2 099 459	135 865	269 895	738 659	848 109	(3 562 496)	529 491
Capitalised expenses	11 631	3	86	168	3 771	-	15 659
Depreciation	9 975	2 335	568	462	2 317	-	15 657
TOTAL LIABILITIES	1 575 316	78 133	301 495	544 228	350 591	(2 459 082)	390 681

Reportable segment information for the year ended 31 December 2015 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	271 453	25 137	140 890	64 735	1 346	-	503 561
Intra-group elimination	(115 664)	(18 340)	(138 977)	-	(656)	-	(273 638)
Revenue from external buyers	155 789	6 797	1 913	64 735	689	-	229 924
Income from revaluation of biological assets at fair value	1 154	238	-	-	-	-	1 391
Other operating expenses	(40 535)	(507)	(39 201)	(35 140)	(1 084)	-	(116 466)
Income from government grants and incentives	105	2	-	-	-	-	107
OPERATING (LOSS)/PROFIT	(10 584)	(5 162)	(40 715)	(25 002)	(5 641)	-	(87 104)
Finance income	358	6	1	3 612	-	-	3 977
Finance costs,	(176)	-	-	(6 029)	(26 322)	-	(32 528)
including:							
Interest payable on loans	(166)	-	-	(6 028)	(1 643)	-	(7 837)
Income tax (expense)/credit	-	-	(86)	1 290	(325)	-	880
NET (LOSS)/PROFIT FOR THE YEAR	(10 356)	(5 389)	(40 799)	(36 602)	(65 242)	-	(158 390)
TOTAL ASSETS	2 358 633	90 089	220 732	614 039	(291 735)	(2 367 587)	624 171
Capitalised expenses	23 009	2 325	(314)	230	11 814	-	37 064
Depreciation	13 290	2 104	392	558	1 284	-	17 628
TOTAL LIABILITIES	1 637 704	8 836	254 411	514 586	345 006	(2 371 426)	389 116

The Group's revenue from external customers and information about its non-current assets by geographical location are presented as follows:

	Revenue from external customers For the for the year ended		Non-current assets As at	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Ukraine	79 439	135 110	383 462	430 357
Middle East and North Africa	33 835	47 354	-	-
Far East	37 144	23 196	-	-
Central and West Africa	165	-	-	-
Europe	34 716	24 264	-	-
South Asia	6 005	-	-	-
Total	191 304	229 924	383 462	430 357

35. Loss per share

Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2016 and 31 December 2015 was based on loss attributable to the owners of the Company, and a weighted average number of ordinary shares as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Loss attributable to the owners of the Company:		
(in USD thousands)		
Loss for the year attributable to the owners of the Company	(56 978)	(154 640)
Weighted average number of shares:		
Weighted average number of ordinary shares at 31 December	6 387 185	6 387 185
Loss per share (USD)	(9)	(24)

Loss per share is the loss for the year after taxation divided by the weighted average number of shares in issue for each year. There are no options or instruments convertible into new shares and so basic and diluted earnings per share are the same.

36. Contingent and contractual liabilities

Ukrainian business and economic environment

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued throughout the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert 75% of foreign currency proceeds to local currency, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst, Group's management considers that all necessary actions are being performed to maintain financial stability of the Group in current circumstances. Continuation of the current unstable business environment may adversely affect results and financial position of the Group, in a manner not currently determinable. These consolidated financial statements reflect current management estimation of Ukrainian business environment influence on the financial position of the Group. Situation development may differ from management expectations. These financial statements were not adjusted to reflect events after the reporting period.

Taxation

As a result of unstable economic situation in Ukraine, tax authorities in Ukraine pay more and more attention to the business cycles. In connection with it, tax laws in Ukraine are subject to frequent changes. Furthermore, there are cases of their inconsistent application, interpretation and execution. Non-compliance with laws and norms may lead to serious fines and penalties accruals.

The Company operates in the Cypriot tax jurisdiction and its subsidiaries in the Ukrainian tax jurisdiction. The Company's management must interpret and apply existing legislation to transactions with third parties and its own activities. Significant judgment is required in determining the provision for direct and indirect taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group's uncertain tax positions are reassessed by Management at every reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting period.

In December 2010, the revised 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. Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2018, respectively, the Tax Code also changes various other taxation rules.

The Group considers that it operates in compliance with tax laws of Ukraine, although, a lot of new laws about taxes and transactions in foreign currency have been adopted recently, and their interpretation is rather ambiguous.

From 1 January 2017 the special VAT regime for agricultural producers was completely cancelled. Thus all subjects of special VAT regime have switched to standard VAT terms.

While the Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorized for issue management was in the process of assessing its effects of its adoption on the operations of the Group.

Pension and other liabilities

Most of the Group's employees receive pension benefits from the Pension Fund, Ukrainian state organization, in accordance with the regulations and laws of Ukraine. Group is obliged to deduct a certain percentage of salaries to the Pension Fund to pay pensions.

As at 31 December 2016 and 31 December 2015 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

Legal matters

In the course of its economic activities the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of such proceedings with the purpose of preventing from losses in the economic sphere or minimize them.

The Group's management considers that as at the reporting period, active legal proceedings on such matters will not have any significant influence on its financial position.

37. Financial risk management

The Group has exposure to the following risks arising from the use of financial instruments:

a) credit risk;

b) liquidity risk;

c) market risk;

d) livestock disease risk.

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group is not a finance company, thus it uses financial instruments as may be necessary in order to obtain finance for its activities, not for the purpose of receiving income. In the process of its activities the Group uses the following financial instruments: cash and cash equivalents, loans to and from related parties, accounts receivable, bonds, bank loans, finance leases and accounts payable.

The Group is exposed to the following risks resulting from use of financial instruments: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk of fair value). This explanation contains information relating to the Group's exposure to each of the risk types mentioned above, Group's objectives, its policy and procedures of these risks measurement and management.

Additional disclosures of quantitative information are presented in many other sections of these consolidated financial statements, including:

- information on finance income and costs is disclosed in Notes 30, 31 (all finance income and expenses are recognised as a part of profit or loss for the year, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 12;
- information on trade and other accounts receivable is disclosed in Notes 10, 11;
- information on trade and other accounts payable is disclosed in Notes 20, 21;
- information on significant terms of borrowings and loans granting is disclosed in Notes 14, 16;
- information on significant conditions of issued bonds is disclosed in Note 15;
- information on significant conditions of received bonds is disclosed in Note 7;

a) Credit risk

Credit risk is the risk of financial loss to the Group in case of non-fulfillment of financial obligations by a client or counterparty under the respective agreement. In the reporting period the Group's financial assets which are exposed to credit risk are represented as follows: cash and balances on bank accounts, trade and other accounts receivable (except for receivables that are not represented by financial assets), VAT government bonds, bank deposits.

Exposure to credit risk

The carrying value of financial assets represents the maximum exposure to credit risk. Maximum level of credit risk as at 31 December 2016 and 31 December 2015 was presented as follows:

Financial assets	31 December 2016	31 December 2015
Cash and cash equivalents	12 570	31 301
Held to maturity investments	9 532	13 599
Trade accounts receivable	40 628	56 665
Total	62 730	101 565

The majority of the Group's cash and cash equivalents as at 31 December 2016 are held with banks which are rated A1 as per Moody's Rating Agency and the minority is held with financial institutions in Ukraine which are either not rated or being placed under liquidation (Note 12).

The rate of held to maturity investments is Caa3 using the credit rate of government of Ukraine per Moody's Rating Agency.

The Group's exposure to credit risk regarding trade accounts

receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during the year ended 31 December 2016 and 2015 resulting from non-fulfillment of obligations by clients. The Management is examining each individual customer to provide extended credit terms in the light of the economic environment in Ukraine. The Management believes that unimpaired amounts are still collectible in full. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2016 USD 45 119thousand or 23,6% from the Group's revenue refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2016 USD 9 135 thousand or 22,5% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

For the year ended 31 December 2015 USD 40 886 thousand or 17,8% from the Group's revenue is refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2015 USD 11 353 thousand or 20,3% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

Trade receivables as at 31 December 2016 and 31 December 2015 by dates of origin were presented as follows:

31 December 2016	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	over one year	TOTAL
Carrying value of trade accounts receivable	12 993	14 637	8 275	3 520	687	100	416	40 628

31 December 2015	0-30 days	31-60 days	61-90 days	91-120 days	121-180 days	181-365 days	over one year	TOTAL
Carrying value of trade accounts receivable	15 447	13 072	10 227	5 961	6 017	5 855	86	56 665

The amounts in column 0-30 days represent the amounts not past due nor impaired.

The amounts due from related parties are not generally provided where there is no reason to doubt the solvency of the debtor.

Related parties tend to be given longer credit terms and the older amounts generally relate to these related parties.

Movement in provision for doubtful debts

	For the year ended 31 December 2016	For the year ended 31 December 2015
As at 1 January	(42 273)	(9 996)
Change in provisions	(17 279)	(37 402)
Write-offs	-	2 754
Effect of translation into presentation currency	6 149	2 371
As at 31 December	(53 403)	(42 273)

Liquidity risk is the risk of the Group's failure to fulfill its financial obligations at the date of maturity. The Group's approach to liquidity management is to ensure, to the extent possible, permanent availability of sufficient liquidity of the Group to fulfill its financial obligations in due time (both in normal conditions and in non-standard situations), by avoiding unacceptable losses or the risk of damage to the reputation of the Group.

The aim of the Group is the maintenance of balance between continuous financing and flexibility in usage of bank loans and settlements with suppliers.

In accordance with the plans of the Group, its working capital needs are satisfied by cash flows from operating activities, as well as by use of loans if cash flows from operating activities are insufficient for liabilities to be settled. The table below represents the expected maturity of components of working capital:

Exposure to liquidity risk

Non-derivative financial liabilities	Contractual cash flows	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
31 DECEMBER 2016	(167 824)	-	(38 288)	(93 338)	(36 199)
Bank loans	(3)	-	-	(3)	-
Finance lease (including VAT)	(267 633)	-	(11 226)	(256 407)	-
Long-term bond liabilities	(3 062)	(3 062)	-	-	-
Trade payables	(29 542)	-	-	(29 542)	-
Dividends payable	(468 064)	(3 062)	(49 514)	(379 290)	(36 199)
31 DECEMBER 2015	(146 010)	-	(75 253)	(55 619)	(15 138)
Bank loans	(44)	-	(16)	(28)	-
Finance lease (including VAT)	(272 880)	-	(5 247)	(267 633)	-
Long-term bond liabilities	(3 375)	(3 375)	-	-	-
Trade payables	(29 542)	-	-	(29 542)	-
Dividends payable	(451 851)	(3 375)	(80 516)	(352 822)	(15 138)

c) Market risk

Market risk is the risk of negative influence of changes in market prices, such as foreign exchange rates and interest rates, on revenue position of the Group or on the value of the Group's available financial instruments.

The objective of market risk management provides control over the Group's exposure to market risk, as well as keeping its level within reasonable limits. Description of the Group's exposure to such market components as currency risk and interest rate risk, is given below.

i) Foreign currency risk

Foreign currency risk which represents a part of market risk is the risk of change in the value of financial instruments due to changes in foreign exchange rates.

Management does not use derivative financial instruments to hedge foreign currency risks and does not follow the official policy for distribution of risks between liabilities in one or another currency. However, in the period of receiving new borrowings and loans, management uses its own estimates to take the decision as for which currency of denomination will be more favourable for the Group during the expected period until maturity.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in functional currency (UAH) as at 31 December 2016 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD	EUR	TOTAL
Trade payables	263	760	1 023
Cash and cash equivalents	(768)	-	(768)
Trade accounts receivable	(18 683)	-	(18 683)
Other payables	6	55	61
Net exposure to foreign currency risk	(19 182)	815	(18 367)

The Company's exposure to foreign currency risk and the functional currency (EUR) as at 31 December 2016 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD
Long-term bond liabilities	219 014
Accounts payable for property, plant and equipment	101
Dividends payable	29 542
Other accounts payable	110
Cash and cash equivalents	(9 478)
Accrued coupon on bonds	1 919
Net exposure to foreign currency risk	241 208

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2015 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD	EUR	TOTAL
Short-term bank loans (including overdrafts)	50 000	-	50 000
Trade payables	269	782	1 051
Cash and cash equivalents	(469)	-	(469)
Trade accounts receivable	(24 274)	-	(24 274)
Net exposure to foreign currency risk	25 526	782	26 308

The Company's exposure to foreign currency risk and the functional currency (EUR) as at 31 December 2015 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD
Long-term bond liabilities	202 871
Accounts payable for property, plant and equipment	7
Dividends payable	29 542
Other accounts payable	110
Cash and cash equivalents	(23 341)
Accrued coupon on bonds	896
Net exposure to foreign currency risk	210 085

Sensitivity analysis (foreign currency risk)

Below there is a sensitivity analysis of income (or loss) of the Group before tax to the possible changes in foreign currency rates. This analysis is conducted based on the assumption that all other variables and interest rates in particular, remain unchanged.

Effect in USD thousand	Increase in currency rate against UAH	Effect on profit before tax	Effect on equity
31 December 2016			
USD	20%	3 836	3 836
EUR	15%	(122)	(122)
31 December 2016			
USD	5%	(12 060)	(12 060)
31 December 2015			
USD	20%	(5 105)	(5 105)
EUR	15%	(117)	(117)
31 December 2015			
USD	5%	(10 504)	(10 504)

ii) Interest rate risk

Interest rate risk is connected with a possibility of changes in value of financial instruments resulting from changes in interest rates.

At present, the Group's approach to limitation of interest rate risk consists of borrowings at fixed interest rates.

Structure of interest rate risk

As at 31 December 2016 and 31 December 2015 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	31 December 2016	31 December 2015
Instruments with fixed interest rate		
Financial assets	9 532	13 599
Financial liabilities	(266 990)	(253 784)
Instruments with variable interest rate		
Financial liabilities	(76 756)	(82 156)

Interest rate risk related to the liabilities with the floating interest arises from the possibility that changes in interest rates will affect the value of the financial instruments. For variable rate borrowings, interest is linked to EURIBOR.

As at 31 December 2016 and 31 December 2015 the Group's sensitivity to changes of EURIBOR by 5% was presented as follows:

Effect in USD thousand	Increase/(decrease) of floating rate	Effect on profit before tax
31 December 2016		
EURIBOR	5%	4
EURIBOR	-5%	(4)
31 December 2015		
EURIBOR	5%	(3)
EURIBOR	-5%	3

The effect of interest rate sensitivity on owners' equity is equal to that on the consolidated statement of comprehensive income.

Such financial instruments as cash and cash equivalents, trade accounts receivable, financial assistance issued, interest receivable for deposits, prepayment for bonds, other non trading accounts receivable are not included in the table given below, since possible effect of changes in interest rate risk (discount rates) under these financial instruments is not material.

Capital management

The Group's management follows the policy of providing the firm capital base which allows supporting the trust of investors, creditors and market and ensuring future business development.

In relation to capital management the Group's objectives are as follows: maintaining the Group's ability to adhere to the going concern principle in order to provide income for owners and benefits to other interested parties, and also maintaining the optimal capital structure with the purpose of its cost reduction.

To manage capital, the Group's management, above all, uses the calculations of the financial leverage coefficient (ratio of leverage ratio) and the ratio between net debt and EBITDA.

Financial leverage is calculated as a ratio between net debt and total amount of capital. Net debt is calculated as cumulative borrowings net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the statement of financial position plus the amount of net debt.

This ratio measures net debt as a proportion of the capital of the Group, i.e. it correlates the debt with total equity and shows whether the Group is able to pay the amount of outstanding debts. An increase in this coefficient indicates an increase in borrowings relative to the total amount of the Group's capital. Monitoring this indicator is necessary to keep the optimal correlation between own funds and borrowings of the Group in order to avoid problems from over leverage.

Financial leverage ratio calculation

For the ratio of net debt to EBITDA, the calculation of net debt is as above. EBITDA is an indicator of income before taxes, interest depreciation and amortisation. It is useful for the Group's financial analysis, since the Group's activity is connected with long-term investments in property, plant and equipment. EBITDA does not include depreciation, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

The ratio of net debt to EBITDA gives an indication of whether income obtained from operating activities is sufficient to meet the Group's liabilities.

As at 31 December 2016 and 31 December 2015 the Group's financial leverage coefficient was 70,2% and 56,5% respectively.

	Carrying value	
	31 December 2016	31 December 2015
Short-term loans	-	50 000
Long-term loans	93 924	64 423
Current portion of long-term loans	31 135	19 015
Long-term finance lease (including VAT)	3	45
Bond liabilities	219 014	202 871
Total borrowings	344 076	336 354
Cash and cash equivalents	(12 570)	(31 307)
Net debt	331 506	305 047
Share capital	836	836
Share premium	201 164	201 164
Capital contribution reserve	115 858	115 858
Retained earnings	864 457	921 435
Foreign currency translation reserve	(1 053 923)	(1 018 085)
Non-controlling interests	10 418	13 847
Total equity	138 810	235 055
Total amount of equity and net debt	470 316	540 102
Financial leverage coefficient	70,5%	56,5%

For the year ended 31 December 2016 and 31 December 2015 ratio of net debt to EBITDA amounted to:

	For the year ended 31 December 2016	For the year ended 31 December 2015
LOSS FOR THE YEAR	(56 636)	(158 390)
Income tax credit	(3 321)	(880)
Finance income	(2 825)	(3 978)
Finance expenses	31 280	32 528
Impairment of current assets	709	39 869
Impairment of funds	-	28 190
Losses on exchange	16 622	43 616
EBIT (earnings before interest and income tax)	(14 171)	(19 045)
Depreciation	15 657	17 628
EBITDA (earnings before interest, income tax, depreciation and amortisation)	1 486	(1 417)
Net debt at the year end	331 506	305 047
Net debt at the year end / EBITDA	223,09	-215,28

During the year there were no changes in the approach to capital management. The Group is not subject to external regulatory requirements regarding capital.

d) Livestock diseases risk

The Group's agro-industrial business is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of disease which are highly contagious and destructive to susceptible livestock, such as avian influenza or bird flu for its poultry operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to minimise and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

38. Fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total
31 DECEMBER 2016				
Biological Assets	-	-	22 028	22 028
31 DECEMBER 2015				
Biological Assets	-	-	27 139	27 139

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 31 December 2016.

The fair value of biological assets is determined as the discounted value of net cash flows expected from assets.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation team that reports directly to the Chief Financial Officer, and has overall responsibility for fair value measurement of biological assets.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. The valuation team assesses and documents the evidence obtained to support the conclusion that the valuation meets the requirements of IFRS, including the level in the fair value hierarchy. Significant valuation issues are reported to the Chief Financial Officer.

The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	As at 31 December 2016	As at 31 December 2015
Discount rate	26,13%	36,94%
Inflation rate	112,40%	101,20%

The higher the discount rate the lower the fair value of biological assets, and the higher the inflation rate the higher the fair value of biological assets. Any interrelationship between the unobservable inputs is not considered to have a significant impact within the range of reasonably possible alternative assumptions.

Sensitivity analysis of biological assets fair value to the possible changes in foreign currency rates is disclosed in the table below:

Effect in USD thousand	Increase/decrease of rate	Effect on fair value of biological assets
31 December 2016		
Discount rate	2,50%	(431)
Discount rate	-2,50%	442
Inflation rate	1,75%	1 576
Inflation rate	-1,75%	(1 576)
31 December 2015		
Discount rate	2,50%	(393)
Discount rate	-2,50%	400
Inflation rate	1,75%	2 950
Inflation rate	-1,75%	(2 950)

There were no transfers to/from Level 3 of the fair value hierarchy during the year ended 31 December 2016.

The reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy is analyzed in note 6 of these consolidated financial statements.

Total gain or losses for the year as shown in the reconciliation (note 6) are presented on the face of the consolidated statement of profit or loss and other comprehensive income as "(Loss)/profit from revaluation of biological assets at fair value" (31 December 2016: Loss USD 2 232 thousand).

The following table analyses the fair values of financial instruments not measures at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31 DECEMBER 2016					
Financial Assets					
Cash and cash equivalents	-	12 570	-	12 570	12 570
Held to maturity investments	8 768	-	-	8 768	9 532
Trade and other receivables	-	-	40 628	40 628	40 628
Financial Liabilities					
Trade payables	-	-	3 062	3 062	3 062
Bank loans	-	124 732	-	124 732	124 732
Long-term bond liabilities	63 988	-	-	63 988	219 014

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31 DECEMBER 2015					
Financial Assets					
Cash and cash equivalents	-	31 307	-	31 307	31 307
Held to maturity investments	14 916	-	-	14 916	13 599
Trade and other receivables	-	-	56 665	56 665	56 665
Financial Liabilities					
Trade payables	-	-	3 375	3 375	3 375
Bank loans	-	133 438	-	133 438	133 438
Long-term bond liabilities	101 114	-	-	101 114	202 871

Assumptions in assessing fair value of financial instruments and assessment of their subsequent recognition

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 instruments. 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 holding of a particular instrument.

As at 31 December 2016, the following methods and assumptions, which remained the same as the prior year, were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents - the fair value is estimated to be the same as the carrying value for these short-term financial instruments.

Held to maturity investments - the fair value of held to maturity investments are measured using the available quoted market prices.

Trade and other accounts receivable, financial assistance issued - the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed for reflection of credit risk influence.

Trade and other accounts payable - the fair value is estimated to be the same as the carrying value for trade and other accounts payable.

Application of the effective interest rate method for calculating carrying value of short-term accounts receivable, interest free loans granted and received and accounts payable does not significantly influence the relevant rates in the consolidated financial information of the Group.

Short-term and long-term bank loans, finance lease liabilities, short-term bonds issued - the fair value of short-term and long-term bank loans, finance lease liabilities, short-term bonds issued is estimated to approximate the total carrying value as the nominal interest rate of long-term bank loans is approximately tied to the market rate concerning bank loans with similar credit risk rate and repayment period at the reporting period.

Bonds issued - the fair value of bonds issued is measured using the available quoted market prices from the relevant stock exchange which the bonds are listed.

As at 31 December 2016 the fair value of the above financial instruments approximated to their carrying amount besides long-term bonds whose fair value was USD 63 988 thousand (short-term bonds 31 December 2015: USD 102 114 thousand).

39. Risks related to the Group's operating environment in Ukraine

Events that took place in Ukraine in 2014 do directly or indirectly influence any business activity in the country in 2015.

Ukraine is still in an armed conflict with pro-Russian terrorists and Russian military forces.

Until the conflict is resolved, Ukraine will face the following problems: inability to attract investments, capital outflow, negative trade balance and hryvnia devaluation as a result which inevitably leads to lowering of living standards and decrease in population purchasing power.

Those events have influenced Group's operations in 2014 and are still influencing the Group in the 2015. Three companies of the Group, namely LLC Yuzhnaya – Holding, SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding, PPB LLC Ptytsecompleks, in a Crimea region have been put into conservation; other four companies, namely PJSC Ptakhohospodarstvo Chervonyi Prapor, SC Ptakhofabryka Chervonyi Prapor Poultry of PJSC Ptakhohospodarstvo Chervoniy Prapor, PSPC Interbusiness and PJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod, are located in the territory currently controlled by the terrorists. The Group has lost an ability to control those companies therefore recognized an impairment loss from the lost assets in the 3rd quarter of 2014. Besides that, a portion of the market has been lost (Crimea accounted for 5% of Ukrainian consumer market and Donetsk and Lugansk regions amounted to 15% of the market).

The Group is facing the following problems:

- Increase in costs due to a significant part of import-containing consumables;
- Decrease in demand as a result of diminishing purchasing power and increased production of eggs by households;
- Significant decrease in marginality as cost level has grown more than sales price due to domestic demand decline.

If military conflict continues the Group will aim to preserve its assets and maintain current market position.

Despite a difficult period in history of the Group we are hoping for positive changes in the following years. Ukraine is currently in a process of "painful" but essential reforms which influence all ministries and agencies. One of the most noticeable reforms concerns bank sector. Tax legislation also gradually changes. A very critical administrative reform has started (power decentralization and influence levers transfer to local authorities). All reforms are supported by a number of international institutions e.g. IMF, World Bank and countries including Germany, Japan, USA and others. Government's political will to pursue implementation of reforms, and international support inspire confidence that Ukraine will be able to overcome current economic crisis and will be victorious in a military conflict, which undoubtedly will positively influence Group's operations.

40. Events after the reporting period

There were no material events after the reporting period except for:

Avangardco bonds: Avangardco Investments Public Limited ("AVG") is engaged in discussions with an ad hoc committee of bondholders regarding a proposal in respect of AVG's U.S.$200,000,000 10.0 per cent. Notes due 2018 (ISIN: XS0553088708) which it expects to share with holders of the Notes shortly. It is possible that the Proposal will include a request to restructure the interest payment and principle due under.

The primary reason to request changes in the structure of the coupon payments is driven by shortage of liquidity, primarily as a result of:

- adverse trends in grain prices globally;
- weak micro-economic and macro-economic conditions in Ukraine, the Group's primary jurisdiction of operation and principal market, which adversely impact demand and prices for the Group's products;
- the annexation of Crimea and the ongoing military conflict in the Donetsk and Lugansk regions of Ukraine;
- the deterioration of relations with the Russian Federation and the imposition of reciprocal trade and other sanctions and restrictions;
- challenging conditions for exports as a result of continuing military/political disruption in certain of the Group's key export markets in the Middle East; and
- its inability to refinance existing indebtedness as a result of the continued weakness of the Ukrainian banking system and the unavailability of international capital markets to Ukrainian borrowers.

The decrease in the cash outflow for the coupon payments will help the company continue to maintain its assets and operations. Going forward AVG is planning to concentrate on operations while prudently managing liquidity and servicing existing debt portfolio.

Syndication facility of Ukrlandfarming Plc: Regarding the CYSEC disclosure, according to our information, Sberbank has contacted CYSEC in order to investigate the peculiarities of the legal process under Cypriot legislation, requesting if a public offer was obligatory in the case of a change of share ownership related to the shares of Avangard. It appears that CYSEC has confirmed to Sberbank that no public offer to Avangard shareholders is required under such hypothetical scenario.

This inquiry by Sberbank, as well CYSEC's comments thereto, do not constitute any risk for Ukrlandfarming, and should be interpreted as part of the internal process of Sberbank to clarify legal procedures in a foreign (Cypriot in this case) jurisdiction.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of Avangardco Investments Public Limited on 23 March 2017.