AVANGARDCO INVESTMENTS PUBLIC LIMITED

Report and Consolidated Financial Statements

For the year ended 31 December 2016

AVANGARDCO INVESTMENTS PUBLIC LIMITED

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AVANGARDCO INVESTMENTS PUBLIC LIMITED

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 March 2017

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.

Management Report (cont.)

Principal risks and uncertainties (cont.)

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.

Management Report (cont.)

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

KPMG Limited
Chartered Accountants
14 Esperidon Street, 1087 Nicosia, Cyprus
P.O. Box 21121, 1502 Nicosia, Cyprus
T: +357 22 209000, F: +357 22 678200

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"), which 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 for 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 year 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 consolidated 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 these 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. These matters were addressed in the context of our audit of the financial statements 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	*How the matter was addressed in our audit*
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.	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 auditors' 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 either 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 the Group's financial reporting process.

Auditors' 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. Misstatements 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 throughout 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 than 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 effectiveness 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 to 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 cease 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 view.

- 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant 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 matters 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.

- In 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 opinion, the Management Report on pages 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 opinion, 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 independent auditors' report is Maria A. Papacosta.

Papacosta

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

KPMG Limited
Certified Public Accountants and Registered Auditors
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**
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)

		for the year ended	
	Note	**31 December 2016**	**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.

AVANGARDCO INVESTMENTS PUBLIC LIMITED

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	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		2 096	1 974
Impairement of funds	28	-	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**
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)**

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

AVANGARDCO INVESTMENTS PUBLIC LIMITED

Consolidated statement of cash flows (cont.)
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
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**

Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2016
(in USD thousand, unless otherwise stated)

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.

Notes to the consolidated financial statements
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1. General information (cont.)

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	Incubation (production and sale of day-old chick), farming of young poultry for sale	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		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	Production and selling of animal feed	Ukraine	100,00%	100,00%
PJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod		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"	Assets holding companies	Ukraine	98,00%	98,00%
LLC "LOHISTYK AGROTRADE"		Ukraine	100,00%	100,00%
LLC "REMTREYDSTANDART"		Ukraine	98,00%	98,00%
LLC "COMPANY NEW REGION"		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%
LLC "KOMERTSBUDPLAST"		Ukraine	98,00%	98,00%
LLC "AGROMASH-ZAHID"		Ukraine	98,00%	98,00%
LLC "STC-INVESTMENTS"		Ukraine	98,00%	98,00%
LLC "TRANSMAGISTRAL"		Ukraine	93,00%	92,00%

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1. General information (cont.)

Company name	Principal Activity	Country of registration	Ownership interest (%) 31 December 2016	Ownership interest (%) 31 December 2015
PJSC Avangard*	Dormant	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*		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 2016 with nominal value of € 0,10 per share.

The shares were distributed as follows:

	31 December 2016		31 December 2015	
Owner	**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%

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1. General information (cont.)

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 39 to the consolidated financial statements and concider that the Group is able to continue its operations as a going concern and that it will be able to meet its obligation as they fall due.

Notes to the consolidated financial statements
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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 the financial 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.

3. Significant accounting policies (cont.)

3.1 Basis of consolidation (cont.)

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 consideration is 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.

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3. Significant accounting policies (cont.)

3.1 Basis of consolidation (cont.)

Business combinations and goodwill (cont.)

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.

3. Significant accounting policies (cont.)

3.2 Foreign currency translation (cont.)

(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.

3. Significant accounting policies (cont.)

3.3 Property, plant and equipment (cont.)

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.

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3. Significant accounting policies (cont.)

3.4 Financial instruments (cont.)

(i)Non-derivative financial assets (cont.)

(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 transaction 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 reclassifled 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 in the 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.

3. Significant accounting policies (cont.)

3.4 Financial instruments (cont.)

(i)Non-derivative financial assets (cont.)

Initial recognition

All financial assets and 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.

3. Significant accounting policies (cont.)

3.4 Financial instruments (cont.)

(i)Non-derivative financial assets (cont.)

Impairment of financial assets (cont.)

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 party to the contractual provision for the instrument. 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.

3. Significant accounting policies (cont.)

3.4 Financial instruments (cont.)

(ii)Non-derivative financial liabilities (cont.)

(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. Significant accounting policies (cont.)

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

3. Significant accounting policies (cont.)

3.7 Biological assets (cont.)

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.

3. Significant accounting policies (cont.)

3.10 Value added tax (VAT) (cont.)

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.

3. Significant accounting policies (cont.)

3.11 Income tax (cont.)

Deferred tax (cont.)

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. Significant accounting policies (cont.)

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. Significant accounting policies (cont.)

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 grants when 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 to the 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.

Notes to the consolidated financial statements
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3. Significant accounting policies (cont.)

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 these consolidated 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.

4. Significant accounting judgements and estimates (cont.)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that 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.

Notes to the consolidated financial statements
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4. Significant accounting judgements and estimates (cont.)

4.5 VAT recoverable (cont.)

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. Significant accounting judgements and estimates (cont.)

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 political situation in Ukraine (note 39).

4. Significant accounting judgements and estimates (cont.)

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.

4. Significant accounting judgements and estimates (cont.)

4.12 Ukrainian business environment (cont.)

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.

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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**

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5. Property, plant and equipment (cont.)

Cost	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
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**

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5. Property, plant and equipment (cont.)

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**

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6. Biological assets (cont.)

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**

	31 December 2016	31 December 2015
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.

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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.

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10. Trade accounts receivable, net (cont.)

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 37 to 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.

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13. Share capital (cont.)

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 2015 the 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

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14. Long-term loans (cont.)

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.

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15. Bond liabilities (cont.)

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:

	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:

	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:

	31 December 2016	31 December 2015
Short-term bank loans denominated in USD	-	11,50%

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**

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17. Securities (cont.)

As at 31 December 2016 and 31 December 2015 surety providers of the liabilities of UkrLandFarming 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**

	31 December 2016	31 December 2015
Total deferred tax assets	5 663	2 761
Total deferred tax liabilities	(351)	(410)
Net deferred tax assets	**5 312**	**2 351**

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19. Deferred tax assets and liabilities, income tax expense (cont.)

Principal components of income tax expense

As at 31 December 2016 and 31 December 2015 the 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**

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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:

		for the year ended	
	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)

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23. Revenue

Sales revenue for the year ended 31 December 2016 and 31 December 2015 was as follows:

	for the year ended	
	31 December 2016	**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:

		for the year ended	
	Note	**31 December 2016**	**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:

		for the year ended	
	Note	**31 December 2016**	**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.

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(in USD thousand, unless otherwise stated)

26. General administrative expenses

General administrative expenses for the year ended 31 December 2016 and 31 December 2015 were as follows:

		for the year ended	
	Note	**31 December 2016**	**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:

		for the year ended	
	Note	**31 December 2016**	**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:

		for the year ended	
	Note	**31 December 2016**	**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)
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).

(in USD thousand, unless otherwise stated)

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	**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:

		for the year ended	
	Note	**31 December 2016**	**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 25 098 thousand 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.

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32. Payroll and related taxes

	for the year ended 31 December 2016	31 December 2015
Salary	(4 882)	(5 510)
Contributions to state funds	(2 903)	(3 277)
	(7 785)	**(8 787)**

	Note	for the year ended 31 December 2016	31 December 2015
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)**

	for the year ended 31 December 2016	31 December 2015
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	31 December 2015
Salary	919	808
Contributions to state funds	118	205
	1 037	**1 013**

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33. Related party balances and transactions (cont.)

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 of USD 3 069 thousand (31 December 2015: USD 6 269 thousand).

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33. Related party balances and transactions (cont.)

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.

Notes to the consolidated financial statements
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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**

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34. Operating segments (cont.)

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	**(10 584)**	**(5 162)**	**(40 715)**	**(25 002)**	**(5 641)**	**-**	**(87 104)**
Finance income	358	6	1	3 612	-	-	3 977
Finance costs, *including:*	(176)	-	-	(6 029)	(26 322)	-	(32 528)
Interest payable on loans	(166)	-	-	(6 028)	(1 643)	-	(7 837)
Income tax (expense)/credit	-	-	(86)	1 290	(325)	-	880
NET LOSS 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**

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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	**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.

36. Contingent and contractual liabilities (cont.)

Ukrainian business and economic environment (cont.)

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.

36. Contingent and contractual liabilities (cont.)

Taxation (cont.)

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.

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37. Financial risk management (cont.)

Risk management framework (cont.)

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 liqudation (Note 12).

The rate of held to maturity investments is Caa3 using the credit rate of government of Ukraine per Moody's Rating Agency.

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37. Financial risk management (cont.)

a) Credit risk (cont.)

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 45 119 thousand 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	**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)**

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37. Financial risk management (cont.)

b) Liquidity risk

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

31 December 2016

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
Bank loans	(167 824)	-	(38 288)	(93 338)	(36 199)
Finance lease (including VAT)	(3)	-	-	(3)	-
Long-term bond liabilities	(267 633)	-	(11 226)	(256 407)	-
Trade payables	(3 062)	(3 062)	-	-	-
Dividends payable	(29 542)	-	-	(29 542)	-
	(468 064)	**(3 062)**	**(49 514)**	**(379 290)**	**(36 199)**

31 December 2015

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
Bank loans	(146 010)	-	(75 253)	(55 619)	(15 138)
Finance lease (including VAT)	(44)	-	(16)	(28)	-
Long-term bond liabilities	(272 880)	-	(5 247)	(267 633)	-
Trade payables	(3 375)	(3 375)	-	-	-
Dividends payable	(29 542)	-	-	(29 542)	-
	(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.

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37. Financial risk management (cont.)

c) Market risk (cont.)

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**

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37. Financial risk management (cont.)

c) Market risk (cont.)

i) Foreign currency risk (cont.)

Exposure to foreign currency risk (cont.)

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)

Effect in USD thousand:	**Increase in currency rate against EUR**	**Effect on profit before tax**	**Effect on equity**
31 December 2016	5%	(12 060)	(12 060)
USD			

Effect in USD thousand:	**Increase in currency rate against UAH**	**Effect on profit before tax**	**Effect on equity**
31 December 2015			
USD	20%	(5 105)	(5 105)
EUR	15%	(117)	(117)

Effect in USD thousand:	**Increase in currency rate against EUR**	**Effect on profit before tax**	**Effect on equity**
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.

Notes to the consolidated financial statements
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37. Financial risk management (cont.)

c) Market risk (cont.)

ii) Interest rate risk (cont.)

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.

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37. Financial risk management (cont.)

c) Market risk (cont.)

Capital management (cont.)

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%**

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37. Financial risk management (cont.)

c) Market risk (cont.)

Capital management (cont.)

Financial leverage ratio calculation (cont.)

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	**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).

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38. Fair values (cont.)

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	**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)

Notes to the consolidated financial statements
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38. Fair values (cont.)

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.

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38. Fair values (cont.)

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).

39. Risks related to the Group's operating environment in Ukraine (cont.)

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.

40. Events after the reporting period (cont.)

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.