THE TIDE IS TURNING

ANNUAL REPORT 2017

AVANGARDCO

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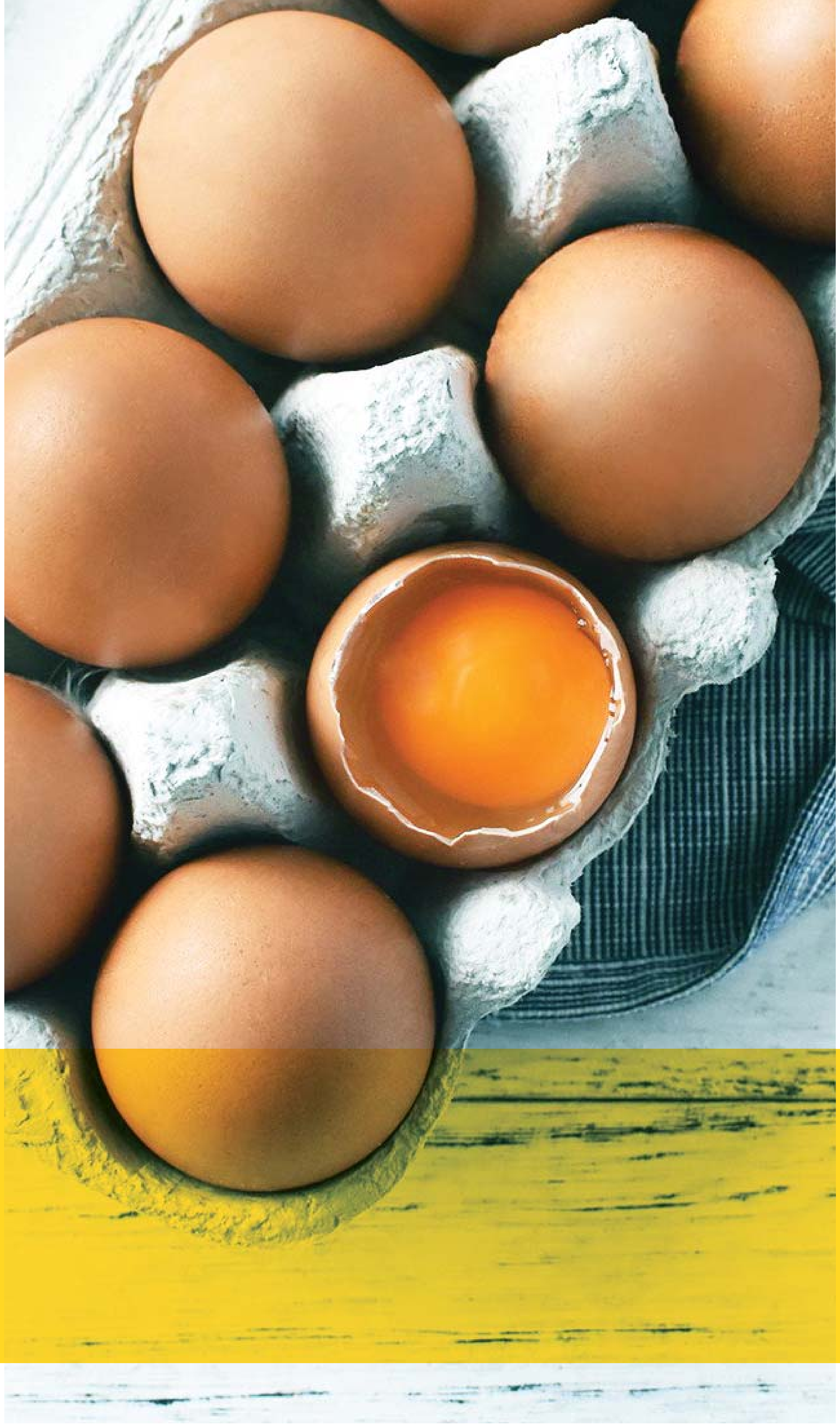

Overview

Business Review

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

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

Despite the political and economic challenges faced by Ukrainian businesses since 2014, Avangardco IPL has retained its leading positions in the domestic and international markets increasing the share of sales through high-margin channels (exports and retail chains), whilst further diversifying the geography of exports and expanding international quality certification for its products.

2017 MAJOR DEVELOPMENTS

A New Turning Point in Company History

Shell Egg Sales Return to Growth Following 4 Years of Decline

At long last, our shell egg sales returned to growth after 4 long years of decline increasing by 23% over the year before.

Much of the growth in sales achieved in 2017 came from expanding exports. Our export geographies for shell eggs expanded dramatically bringing the total number of country markets from 7 to 20. Domestically, Avangardco IPL was particularly successful in increasing sales under its umbrella retail brand of Kvochka. In 2017, Kvochka sales grew by 53% over the year before.

Exports of Shell Eggs More than Double as Geographies Expand

Over a Dozen Country Markets Added to Company Portfolio

2017 became a truly breakthrough year for Avangardco IPL in terms of the pace of recovery of the company's export sales. Export volume of shell eggs grew by a whopping 121% or 2.2 times. True, the company has a lot of catching up to do before it regains its past export volume but now we know it for a fact that achieving this goal is only a matter of time.

It is quite remarkable that this breakthrough did not solely come from regaining sales to our traditional export markets. In 2017, we added a considerable number of new country markets bringing their total from 7 to 20.

The share of sales to Sub-Saharan Africa alone increased 8 times as a percentage of total shell egg exports from 0.9% in 2016 to 7.4% in 2017. The contribution from sales to the CIS regional market rose from 8.7% in 2016 to 11.4% in 2017 of total shell egg exports.

Excessive Dependency on Exports to Iraq Significantly Reduced

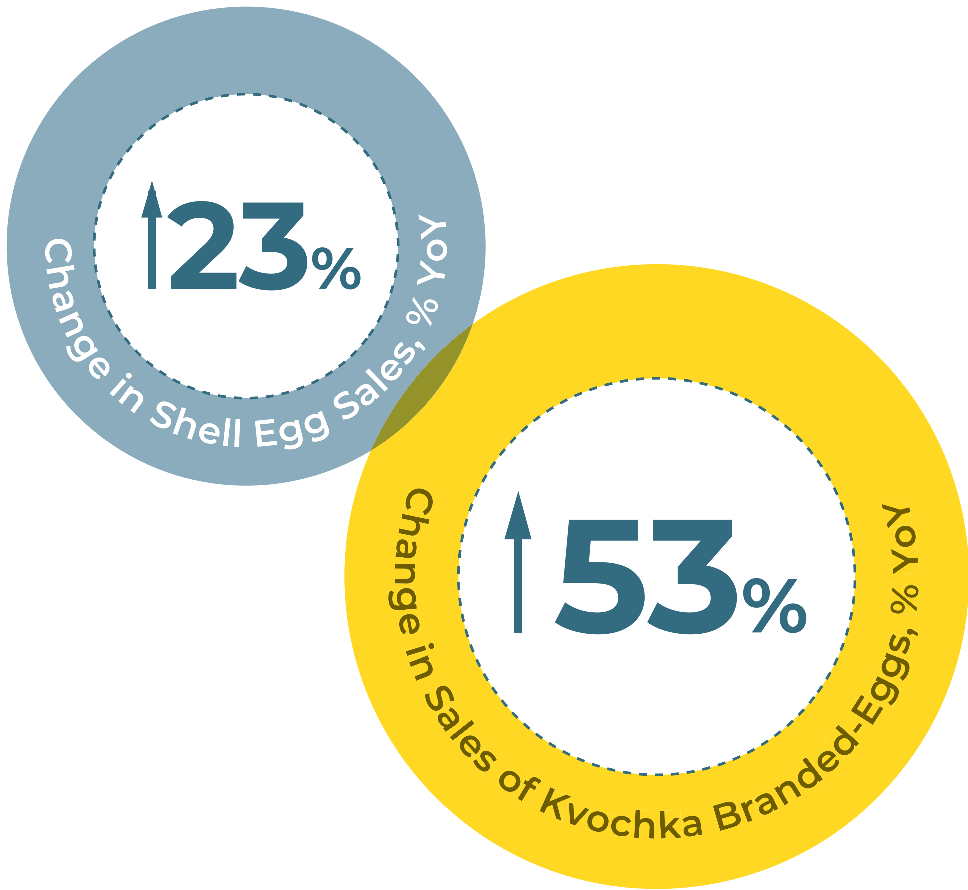
Share of Iraq Reduced by Half

In 2017, Avangardco IPL achieved a twofold reduction in the dominant share that Iraq had traditionally held in the company's exports of shell eggs bringing it down from 66% in 2016 to 35% in 2017 of total shell egg export volume.

This in no way implies, however, that we intend to reduce sales to Iraq in the long run. We remain strongly committed to the Iraqi market. After all, Iraq was among our first export destinations back in 2009 helping us establish awareness of our brand and product quality.

In recent years, however, trade with the Middle East and North Africa (MENA) and Iraq in particular has been obstructed by the war on ISIS and the continued hostilities in Syria being a key transit point between Ukraine and MENA.

We hope that the conflict in Syria and Iraq will soon be resolved and normal trade will resume.



IMPORTANT DEVELOPMENTS IN 2017

EU Approves Avangardco IPL as a Supplier of Table Eggs

Avangard Eggs Coming to EU Supermarket Shelves Beginning 2018

Avangardco was first admitted to the EU market back in 2014 with its egg products. Initially, the EU only allowed Ukrainian egg products and shell eggs for further processing. As part of the EU-Ukraine Association Agreement of 2014 establishing a Deep and Comprehensive Free Trade Area, the European Union has granted Ukraine a number of trade concessions and privileges, e.g. duty-free quotas on a whole range of commodities including shell eggs and egg products. The bad news is that those duty-free quotas remain quite limited even though they have been gradually expanded. The good news is that European buyers have also been willing to buy Ukrainian eggs and egg products outside the available quota space and bear the full cost of customs clearance because our prices are competitive enough to absorb the additional costs.

There's more good news. The EU has been expanding not only the quota space but also the range of Ukrainian products admitted to its Internal Market. In late 2017, Avangardco IPL filed an application with the appropriate EU authorities for a licence to sell table eggs (Category A). The admission process is not automatic, it involves a very thorough and rigorous examination of the product itself and the process of its manufacture.

When allowing new products or vendors to enter its market, the EU never compromises on quality or food safety. And in the case of Avangardco IPL they positively do not have to. The company's flagship Avis egg-farming complex has been thoroughly and exhaustively audited by the appropriate authorities. In February 2018, the European Commission found Avis to be in full compliance with all the requirements that apply to any suppliers of table eggs admitted to the EU Internal Market including Council Directive 1999/74/EC of 19 July 1999 laying down minimum standards for the protection of laying hens.

Growing sales to the EU market benefits Avangardco IPL in multiple ways. It expands the company's access to the world's largest and most lucrative market while helping alleviate its excessive dependency on exports to the conflict ridden MENA region.

Domestic Sales Mix Continues to Improve

Portfolio of Retail Brands Expands

Throughout 2017, we continued to pursue our long-term strategy aimed at increasing the share of sales made through retail chains while reducing exposure to wholesalers, once our largest sales channel.

In 2017, total sales of shell eggs through supermarkets increased by 11% YoY while sales under the Kvochka brand soared by 53% YoY.

In January 2018, the company launched a new sub-brand under the Kvochka family for the premium segment, Kvochka XL.

At the same time, in 2017 sales of shell eggs through wholesalers contracted by a further 14% YoY reducing the share of this sales channel down to 16%.

Biogas Plant Launched at Chornobaivske

Manure Sustainably and Safely Converted to Clean Energy

In November 2016, Avangardco IPL put into operation a biogas plant at the Chornobaivske poultry complex that started the production of electricity in 2017.

The biogas plant helps safely and sustainably convert chicken manure into clean energy by extracting from it a biogas mixture, largely made up of methane.

It is widely known from ample climate change research that methane is roughly ten times more harmful than CO_2 by greenhouse effect. According to FAO, 20% of the carbon footprint left by the poultry industry is caused by manure.

Avangardco's biogas plant uses a unique technology of converting chicken manure to biogas and then to clean thermal energy and electrical power, which does not require the use of silage. Biogas is captured from manure through anaerobic digestion. The biogas being recovered from the manure is over 50% methane. This content of methane makes biogas a fuel that is sustainably burned by the company in a co-generation unit to produce green electricity and heat.

In 2017, the biogas plant at Chornobaivske produced 6,517,289 kWh of clean electricity, 1,424 tonnes of dry fertiliser and 103,473 m^3 of liquid organic fertiliser. The company fully benefits from the feed-in (green) tariff that allows clean energy producers to sell power to the grid at two to three times higher the normal price.

The biogas plant is a tool helping the company achieve environmental sustainability, it reduces the costs of environmental compliance while generating additional revenues and earnings.

Chornobaivske Complex Successfully Certified to ISO 22000:2005

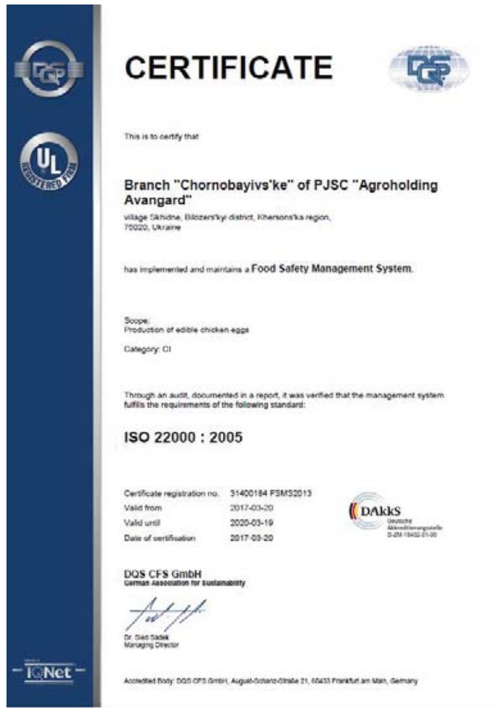
Compliance with ISO's Food Safety Standards Confirmed by Leading German Certification Agency

In March 2017, Chornobaivske successfully completed a series of

IMPORTANT DEVELOPMENTS IN 2017

rigorous tests by the German Association for Sustainability (DQS CFS GmbH), a leading German certification agency accredited by the Deutsche Akkreditierungsstelle (DAkkS).

ISO 22000:2005 Certificate



CERTIFICATE

This is to certify that

Branch "Chornobayivs'ke" of PJSC "Agroholding Avangard"
village Skhidne, Bilozers'kyi district, Khersons'ka region, 75020, Ukraine

has implemented and maintains a Food Safety Management System.

Scope:
Production of edible chicken eggs

Category: CI

Through an audit, documented in a report, it was verified that the management system fulfills the requirements of the following standard:

ISO 22000 : 2005

Certificate registration no.	31400184 FSMS2013
Valid from	2017-03-20
Valid until	2020-03-19
Date of certification	2017-03-20

DQS CFS GmbH
German Association for Sustainability

Dr. Sied Sadek
Managing Director

Accredited Body: DQS CFS GmbH, August-Schanz-Straße 21, 60433 Frankfurt am Main, Germany

DQS CFS issued a certificate of compliance with ISO 22000:2005 for the food safety management system implemented and maintained at the facility.

Home Demand Gradually Recovers Amid Efforts to Boost Purchasing Power while Shell Egg Consumption Remains Depressed

Increase in Minimum Wage Spurs Up Inflation as Many Feared

The decision to raise the minimum wage from UAH 1,600 to UAH 3,200 came in December 2016 creating expectations of a home market recovery in 2017. Many feared, however, that the move would unleash inflation instead of boosting purchasing power and home demand.

The 2017 government budget originally assumed an inflation rate of 8.1% according to the original version of the Law of Ukraine' On the 2017 State Budget of Ukraine'. By September, however, actual inflation had reached 16.4% YoY closing at 13.7% YoY in December. In chicken eggs, inflation rate was even higher than that reaching 21.2% YoY in December. That's according to the State Statistics Service of Ukraine.

It is quite remarkable that domestic egg prices remained depressed for the better part of the year, under pressure from numerous unfavourable factors including import bans imposed by several key country markets that trapped a considerable volume of eggs in the home market. They did not start picking up until the fourth quarter due to seasonality and growth of exports encouraged by competitive pricing and the lifting of import bans on Ukrainian eggs.

Seasonality of Production and Price Fluctuations Exacerbated by Household Production and Import Bans

Households Continue to Rock the Boat while Import Bans Trap Volume in Home Market

In 2017, the seasonality in Ukraine's domestic egg market became more pronounced with egg prices hitting a new low during the summer months.

Household production of eggs continues to harm the egg-farming industry and the market as a whole causing sweeping seasonal price fluctuations and rendering the market unpredictable. In 2017, household production increased by another 1.8% YoY reaching a total volume of 7.2 bn eggs, almost one third of which was put to the market during the summer months.

Another factor responsible for the price hitting a new bottom was a series of bans imposed on Ukrainian eggs by several importing countries, which trapped a considerable volume of eggs in the domestic market.

The two factors resulted in a severe overproduction during the summer months, which was not relieved until later in the year when the bans were largely lifted and the seasonal hike in home demand began by the end of the third quarter as households were gradually reducing production that had increased during the summer.

Production and Sales of Egg Products Shrink under Pressure from Trade Bans and Toughening Competition

Egg Product Prices Drop Globally as Competition Strengthens

Admittedly, 2017 was not a very successful year for our egg powder segment. Several negative developments occurred concurrently resulting in a substantial loss of sales and reduction in production volume.

In early 2017, several countries including a number of MENA markets imposed strict bans on Ukrainian poultry products that were not lifted until the end of the summer. Competition in the global market for dry egg products continued to toughen as many producers resorted to aggressive price undercutting. As a result, we were forced to reduce our prices by 17% compared to the year before.

The market situation toughened in no small measure due to increased competition from US producers. They recovered their volume of production of both shell eggs and egg products following bird flu breakouts. In late 2016 – early 2017, US producers embarked on an aggressive comeback strategy to regain the lost market turf including price undercutting, especially in egg products.

In Q2 and Q3, while the company was grappling with a severe seasonal drop in home demand for shell eggs and when it needed so badly to divert more eggs into processing, sales of egg products stopped completely to one of our top buyers. Denmark, being our largest European buyer, froze imports over failed negotiations of terms. The negotiations eventually succeeded and Denmark resumed buying from us but not until much later in the year.

We responded to the temporary loss of sales to MENA and Denmark by successfully expanding sales to other EU markets in Q4 2017, namely Italy and Hungary. In Q4 2017, we were also actively selling our egg products to the South Pacific, specifically Thailand and Indonesia.

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HIGHLIGHTS OF COMPANY HISTORY

2003-2009

2003

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

2003-2009

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

2010-2013

2010

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

2011-2013

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

2014-2016

2014

On 30 September 2014, Imperovo Foods receives official authorization to export dry egg products to the European Union.

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

2015

Avangardco restructures a USD 200 mn 10.0% Eurobond that represented a lion's share of its debt portfolio shifting the maturity from October 2015 to October 2018.

2016

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

The Avis poultry complex successfully completes with ISO 22000:2005 certification (Food safety management system).

2017

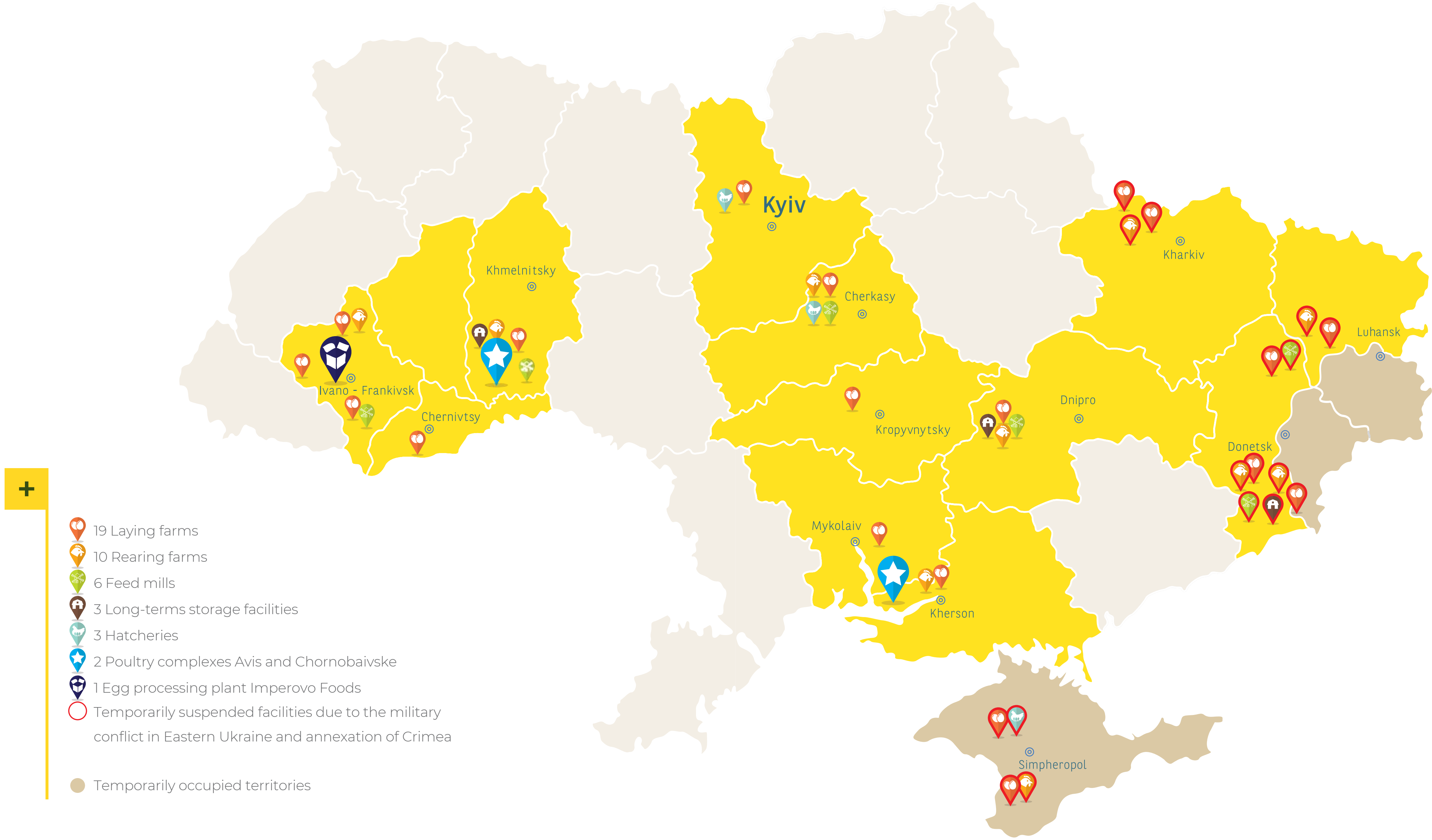
Avangardco enters into the discussions with an ad hoc committee of bondholders regarding the proposal of restructuring of its USD 200 mn 10.0% Eurobonds due in 2018.

Avangardco group completes ISO 9001:2015 certification for its quality management system, while the Chornobaivske poultry complex gets certified to ISO 22000:2005 (Food safety management system).

In November 2016, Avangardco IPL launched a biogas plant at the Chornobaivske poultry complex that started generating electricity in 2017.

The company continues its sales promotion activities. In particular, exports of shell eggs reached 558 mn. Avangardco added 4 new country markets to its export destinations and in 2017 sold its shell eggs and egg products to 37 countries. On the domestic market, sales of shell eggs to supermarkets continue to be the largest sales channel, whilst sales of the Kvochka branded eggs soared 53% YoY due to a supporting marketing campaign.

OUR ASSETS



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

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

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

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

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

We have also concentrated about 84% of our laying flock at Avis and Chornobaivske, our vertically integrated poultry complexes built and operated using state-of-the-art egg farming technologies.

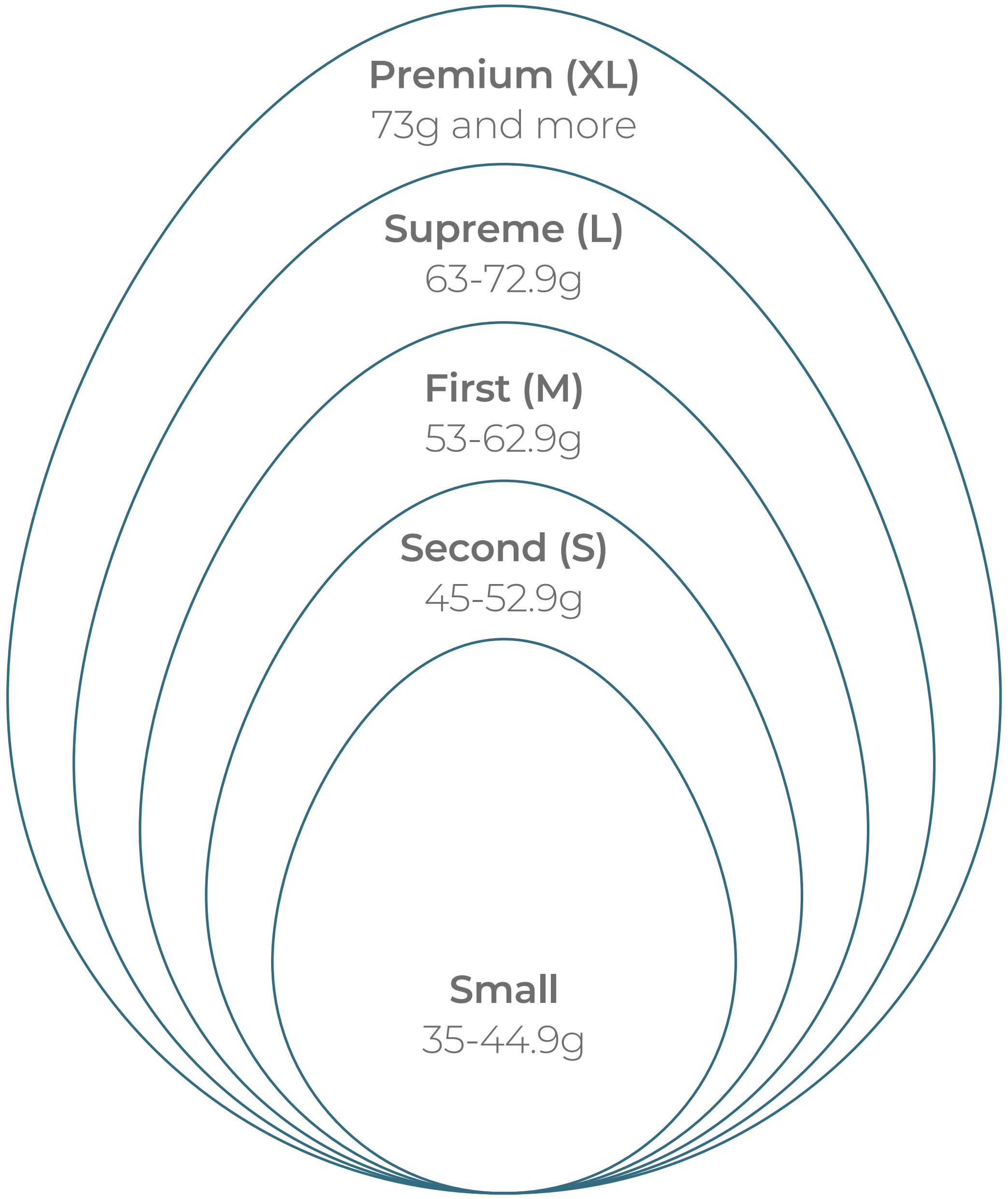
[1] In 2014, the company suspended and recognised impairment of the following assets: the laying farm "Yuzhnaya-Holding", rearing farm "Yuzhnaya-Holding", laying farm and hatchery "Ptytsecomplex" due to the annexation of the Autonomous Republic of Crimea, as well as the laying farm "Chervonyi Prapor",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

OUR PRODUCTS

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

We sell shell eggs as branded packaged eggs in 10-egg cartons and in 30-egg trays.

Domestically our shell eggs are sold through approximately 2,000 outlets throughout Ukraine including key supermarket chains such as Auchan, ATB, Silpo, Novus, Pakko, Velyka Kyshenya, Karavan, Brusnichka and others. In 2017, we exported around 30% of our shell eggs to 20 countries in the MENA region, Sub-Saharan Africa, Asia and the CIS.



OUR PRODUCT RANGE

Kvochka (Mother Hen)

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

Domashny (Homelaid)

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

Kvochka XL

Kvochka XL's cartons contain ten premium table eggs (Extra-large (XL)), each weighing over 73 grammes. Kvochka XL is priced at the higher end of the Kvochka range of packaged eggs targeting customers looking for the premium eggs.

Organic Eggs

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

EGG PRODUCTS

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

In 2017, we exported 78% of our dry egg products to 22 countries in the EU, MENA, Asia, the Far East and the CIS. The main customers of egg products are companies in the food industry such as confectionery, fat-and-oil, bread, meat processing and others.

+

Egg albumen powder, high-whip

Suitable for the confectionery and bakery industry. The advantages of this product include excellent whipping qualities and good foam stability. A further advantage is the storage conditions, handling and shelf life of powder compared to liquid products.



Consists of 100% natural de-sugared, spray dried and pasteurized egg white. 100 g of powder dissolved in 700 g of water corresponds to 800 g of fresh egg white (equivalent to approx. 25 eggs).

Egg albumen powder, high-gel

Suitable for the confectionery, bakery and meat industry. The advantages of this product include premium gelling and water binding properties.



Consists of 100% natural de-sugared, spray dried and pasteurized egg white. 100 g of powder dissolved in 700 g of water corresponds to 800 g of fresh egg white (equivalent to approx. 25 eggs).

Whole-egg powder

Suitable for baked products, ready meals, meat products etc. The advantages of this product include its texture and emulsifying properties.



Consists of 100% whole egg powder. Pasteurized and spray dried whole egg. 100 g dissolved in 300 g of water corresponds to 400 g fresh whole egg (equivalent to approx. 8 shell-eggs).

Egg yolk powder

Suitable for mayonnaise, dressings, pasta, ice cream, baked products, cake mix or other products where egg yolk is needed. The advantages of this product include its emulsifying qualities, taste, colour and texture.



Consists of 100% natural pasteurized and spray dried egg yolk. 100 g of powder dissolved in 125 g of water corresponds to approx. 225 g of liquid egg yolk.

Heat-stable egg yolk powder

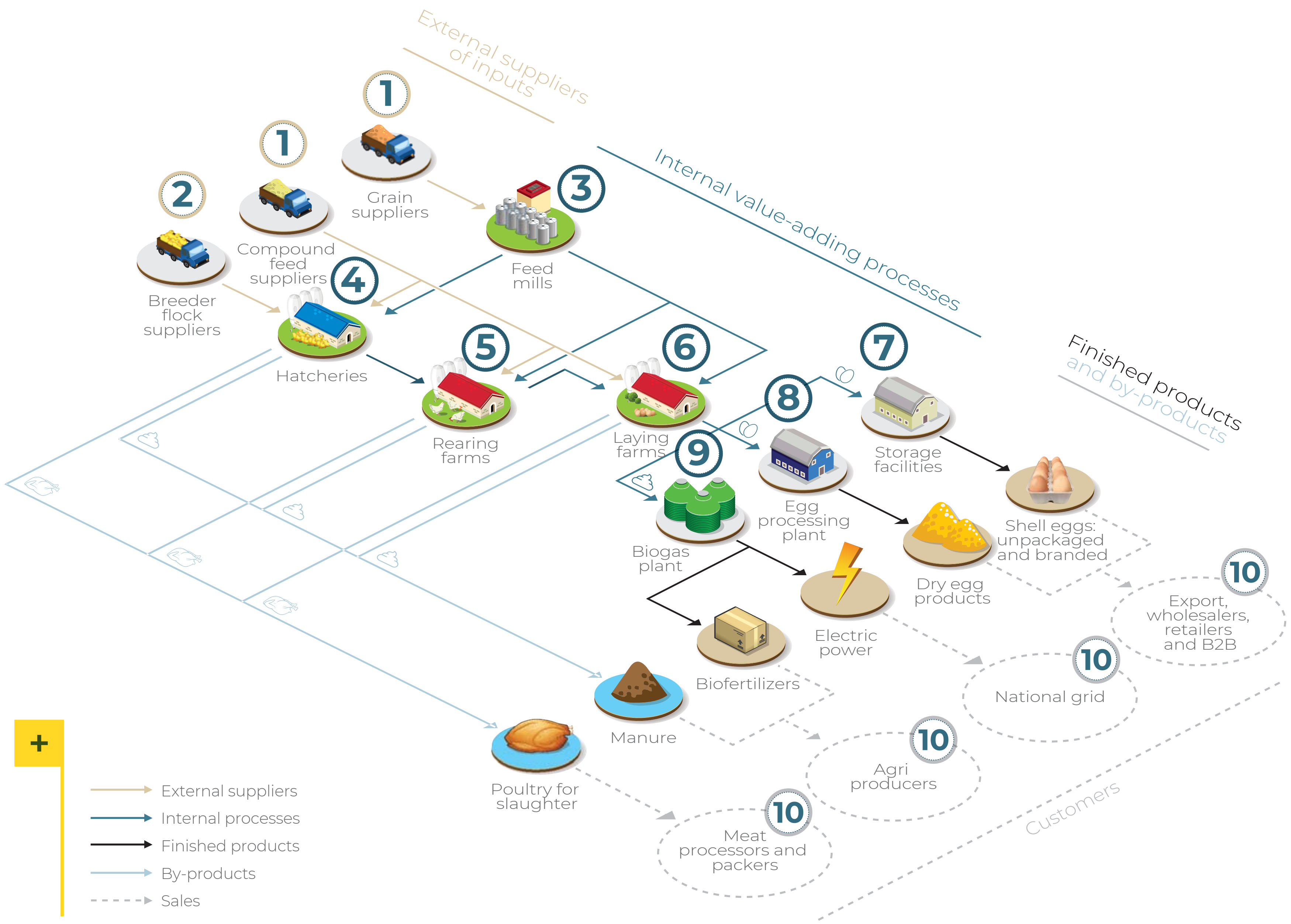
This type is used mainly in the mayonnaise industry, as it is characterized by thermostability as well as excellent emulsifying properties. Provides stable emulsion in high temperature conditions, long-term storage.



Consists of 100% natural pasteurized and spray dried egg yolk. 100 g of powder dissolved in 125 g of water corresponds to approx. 225 g of liquid egg yolk.

VERTICAL INTEGRATION

Avangardco's Vertically Integrated Business Model Ensures Stronger Cost Control and Improves Efficiency, whilst Ensuring Consistent Quality of Inputs and Quality Control at Each Stage of Production



1 2 External inputs:

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

3 Animal feed production:

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

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

The company's capacities allow processing of approximately 84% of fodder required for shell egg production.

4 Production of hatching eggs:

Avangardco is 100% self-sufficient in hatching eggs.

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

5 6 Shell egg production:

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

Avangardco had 9.3 mn laying hens as at year end, which produced 2.4 bn shell eggs in 2017.

84% of our laying flock is located at the modern and more efficient Avis and Chornobaivske poultry complexes.

7 Storage facilities:

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

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

8 Production of egg products:

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

In 2017 approximately 542 mn shell eggs were processed into 6,368 tonnes of dry egg products.

9 Co-generation:

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

10 Sales:

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

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

OUR VALUE CREATION MODEL

VERTICAL INTEGRATION +

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

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

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

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

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

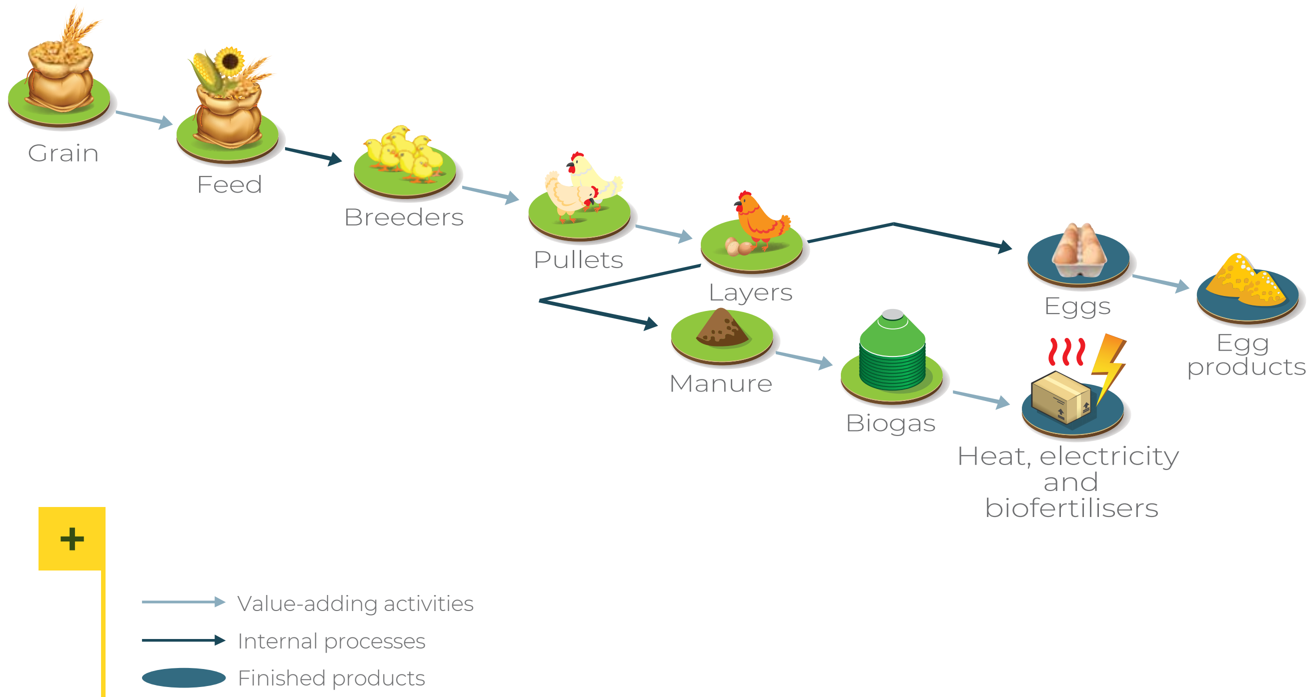
Avangardco has that capability. We produce, or rather, grow our own productive assets, our hens, from a very young age. As a matter of fact, they are born into our hatcheries, grown to egg-laying age and used productively until we retire them.

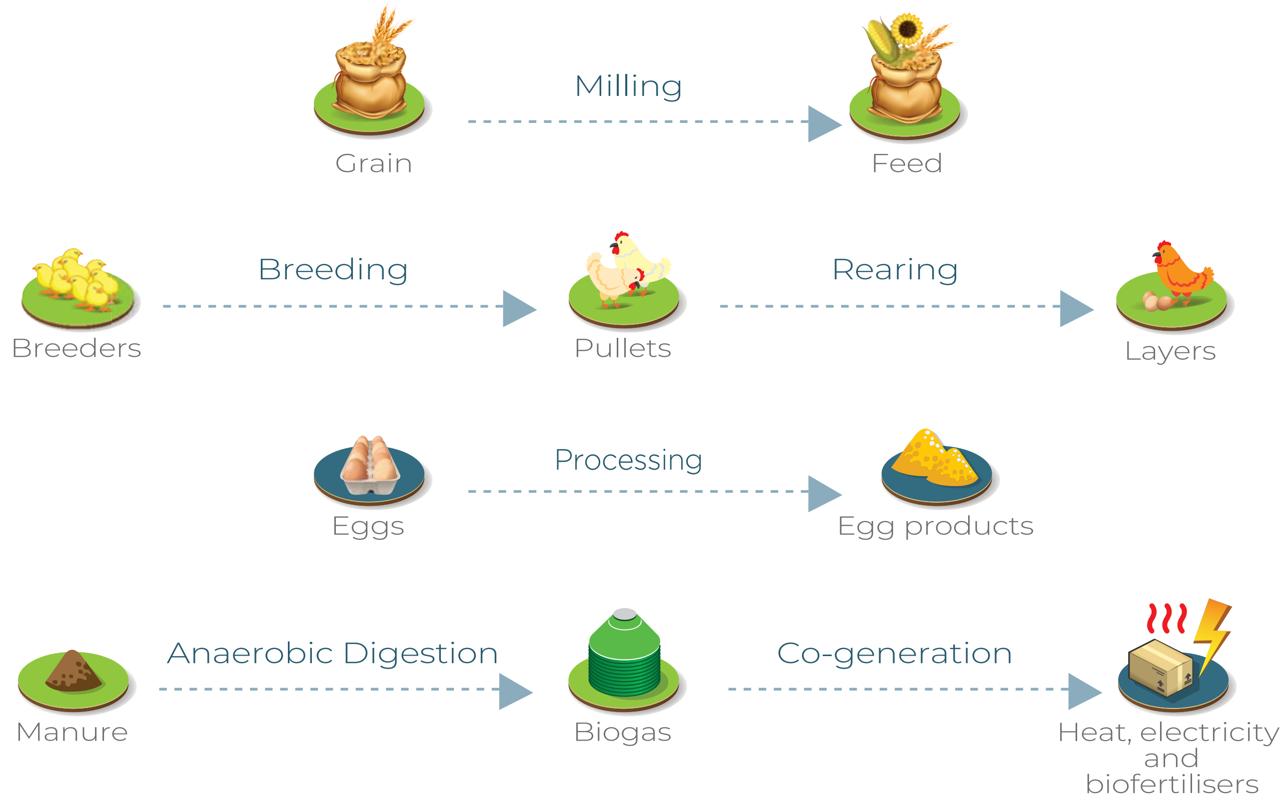
Laying of eggs is not where it ends though. We set aside some of the eggs laid and add more value by processing them into several varieties of egg products.

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

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

Avangardco's Value Creation Model





OUR STREAMS OF VALUE CREATION

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

+

Doing it cost-effectively

We look for the best deals on our inputs and productive assets and add value at the lowest cost to improve profitability.

+

Doing it safely

We put biological security first. It overrides all other considerations when we make our sourcing decisions.

+

Doing it sustainably

We use sustainable sourcing practices to ensure that we continue to have uninterrupted access to our key inputs and productive assets.

The Feed Stream

Animal feed is without a doubt our most important input and cost driver. Its share of the company's cost of production is as high as 67% as of 2017. We source animal feed cost-effectively, safely and sustainably:

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

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

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

The Breeding and Rearing Streams

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

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

Unique to egg farming are two more streams of vertical integration and value creation whereby the industry's productive assets – laying hens – are created. And Avangardco IPL includes them both in its vertically integrated ecosystem.

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

Avangardco IPL owns and operates 6[1] rearing farms where we rear all our laying hens in a biologically secure and controlled environment.

But unlike most other industrial egg farmers we do not buy our pullets from breeders, we are breeders ourselves. The company owns and operates two[2] hatcheries equipped to the state of the art of modern technology, one of which is Europe's largest, where it breeds the parents of our future laying hens. Currently we buy breeder chickens from Lohmann Tierzucht and Novogen, the world's leaders in poultry genetics, and then produce the pullets that we eventually grow into layers.

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

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

Laying as a Value-Adding Activity Enhanced by Vertical Integration

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

[1,2] Excluding temporarily suspended facilities in Eastern Ukraine and Crimea.

The Processing Stream

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

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

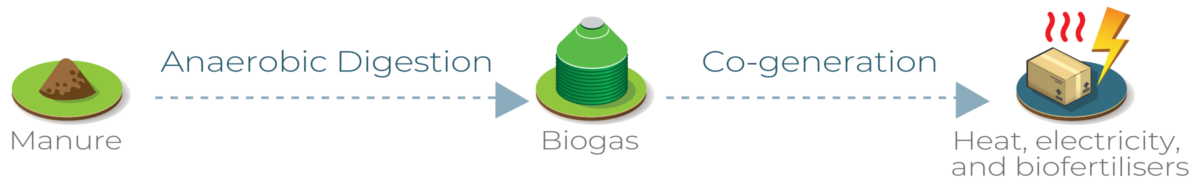
- **Doing it cost-effectively:** we are one of the world's most cost effective producers of egg products because we source eggs in-house at a cost that fully benefits from our deep vertical integration.

- **Doing it safely:** all eggs we process into powder come from our own egg-laying farms protected by our strong biosecurity defences. Upon breaking, the egg mass gets pasteurised, which renders it and the resulting egg products sterile.

- **Doing it sustainably:** it is a unique feature of our vertical integration that is extremely critical in the unique circumstances of Ukraine's home egg market where organised industry traditionally shares the market with egg-producing households that cause unmanageable oversupply situations in times of crisis when household income drops forcing families to switch to home-laid eggs. Egg processing allows the company to literally save any excessive volume it inadvertently produces, when household production surges, from being sold at a loss or spoilt, by converting it to egg powder that can be stored for a considerably longer time.

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

The Anaerobic Digestion and Heat and Electricity Co-Generation Streams



Avis and Chornobaivske are huge not only in terms of production volume or flock, they are also Eurasia's largest by another important metric – the amount of chicken manure produced in one place.

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

- **Doing it cost-effectively:** by recycling manure productively we avoid additional costs of disposal. True, it costs money to operate a biogas plant but the value derived from manure turned to biogas turned to heat and power more than compensates for the cost of biogas plant operation.

- **Doing it safely:** it is obvious that the safest way to deal with manure potentially posing a biosecurity risk especially if generated in large volumes is to dispose of it on site without having to move it anywhere. Anaerobic manure digestion is a process whereby manure gets biologically deactivated in a controlled environment.

- **Doing it sustainably:** recycling biological waste into valuable commodities and at the same time preventing environmental pollution.

  We sell electricity produced at the Chornobaivske biogas plant to the national grid at the so-called green tariff, which is on average two to three times higher than the normal price of power produced from fossil fuels. Using a by-product of anaerobic manure treatment, we also produce liquid and granulated biofertilisers, for which we are consuming the thermal power obtained from biogas processing.

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

LETTER FROM CEO

Nataliya Vasylyuk,
Chief Executive Officer

Dear shareholders, bondholders, customers, suppliers and all our other partners! Let me welcome you to a review of our operations during 2017!

Following 4 years of decline under the numerous and heavy pressures of the 2014-2016 recession, sales of shell eggs finally returned to growth in 2017 increasing by 23% YoY in volume terms.

Most of this growth was generated by a strong rebound in exports by an unprecedented 121% YoY. It was brought about by a considerable increase in the number of country markets we trade with from 7 in 2016 to 20 in 2017. We entered such new markets as the Republic of the Maldives, the Central African Republic and the Federal Republic of Somalia.

Another crucial development on the export front is the admission of Ukrainian table eggs by the European Union. As this report goes to print, the company's own application is approved and we cautiously expect to start selling Avangard eggs on EU supermarket shelves sometime during 2018.

Exports of shell eggs did not just grow, they improved considerably

LETTER FROM CEO

in terms of composition and concentration profile. While the Middle East and North Africa has traditionally been our largest export market with Iraq being our single largest country market, dependency on MENA has proved excessive and onerous in recent years as instability and conflict continue to afflict the region.

In 2017, Avangardco IPL succeeded in alleviating that heavy dependency by increasing sales to other export markets. The share of Iraq in company exports was reduced from 66% to 35% of total shell egg export volume rendering our export profile a lot more balanced and free from excessive concentrations.

On the home-market front, we continued focusing on increasing the share of sales made through supermarket chains with a particular focus on promoting our retail brand family of Kvochka. Total Kvochka sales soared by 53% YoY in 2017.

In the beginning of 2018, we also launched a new variety, Kvochka XL, a premium offering for our most demanding and discerning customers.

The mass market has not yet recovered. While the government has made considerable efforts to boost consumer demand by doubling the minimum wage, the positive effect from that move on disposable income has yet to fully manifest itself.

The egg-farming industry is slowly but steadily regaining market share from egg-producing households but the seasonality exacerbated by household production remains strong. In 2017, the shell egg price difference between the peak and trough of the seasonality curve (July vs. December) increased to an all-time high of 143%, which stands in stark contrast to the 15% difference in 2013 when the egg-farming industry was booming with Avangardco IPL at the lead as its largest player exerting positive influence on the market as a whole and smoothing out excessive price fluctuations.

This only goes to show that a modern and civilised egg market where industry claims a lion's share of production benefits consumers because the market and prices are predictable enabling households to plan their family budgets.

In 2017, the seasonal overproduction caused by households coincided with the imposition by several major importing countries of trade bans on Ukrainian poultry products over outbreaks of avian influenza in several regions of Ukraine. Our farms were not affected but we suffered losses from those bans along with the rest of the industry.

The bans were eventually lifted but the damage was done to our profitability because we were forced to sell at a loss for a considerable amount of time during the first three quarters of the year.

Our egg processing operations suffered from the bans too. But there are more adverse factors at play that forced both production and sales of egg products to plummet. Following a chain of bird flu outbreaks during December 2014 and mid-June 2015, US egg processors made a grand comeback to the world egg product market resulting in market saturation and causing prices to crash. We estimate that this was a one-off situation and things will return to normal soon because the extra volume that came from the US was caused by substantial overproduction of shell eggs in the country rather than a conscious move to increase egg product exports.

In 2017, we continued to work towards a consensual restructuring solution for our debt in accordance with established market practices. We hope to finalise those negotiations in 2018 on the mutually beneficial terms.

Let me conclude on a positive note by sharing another excellent piece of news. At the end of 2016, we launched our biogas plant at Chornobaivske poultry complex. 2017 became its first year of operation. And even though it is still running in test mode we have already produced a considerable amount of clean energy using biogas recovered from manure, some of which has been sold to the national grid at the preferential feed-in (green) tariff.

We intend to expand our biogas operations to affirm our strong commitment to sustainable egg farming and undertake other activities as part of fulfilling our role as a good corporate citizen.

Sincerely,

Nataliya Vasylyuk
Chief Executive Officer

Overview
Business Review
Corporate Social Responsibility
Corporate Governance
Financial Statements

MACROECONOMIC OVERVIEW

GDP Growth Positive but Sluggish, its Pace Constrained by Blockade of Conflict Zone among Other Factors

Ukraine's economy has been back on growth track for the second consecutive year. Following a severe GDP decline in 2014-2015, growth resumed in 2016 reaching 2.4% YoY. In 2017, GDP grew by another 2.5% YoY, according to the State Statistics Service of Ukraine.

Continued GDP growth may be excellent news but many expected the economy to recover at a faster pace. After all, Ukraine had sustained a very substantial loss of GDP in 2014-2015 (-6.6% YoY in 2014 and -9.8% YoY in 2015, according to the State Statistics Service of Ukraine), so it's only natural that when growth eventually resumed many quite reasonably expected a faster recovery.

Apart from factors of purely economic nature that resulted in a slower rebound than expected, extraordinary circumstances also intervened that further constrained the pace of recovery.

In January 2017, a group of activists including a number of Ukrainian MPs launched a blockade to stop all trade between the conflict zone in Eastern Ukraine, officially referred to as Temporarily Occupied Territories and the rest of Ukraine arguing that Ukraine should stop all trading with the occupied territories.

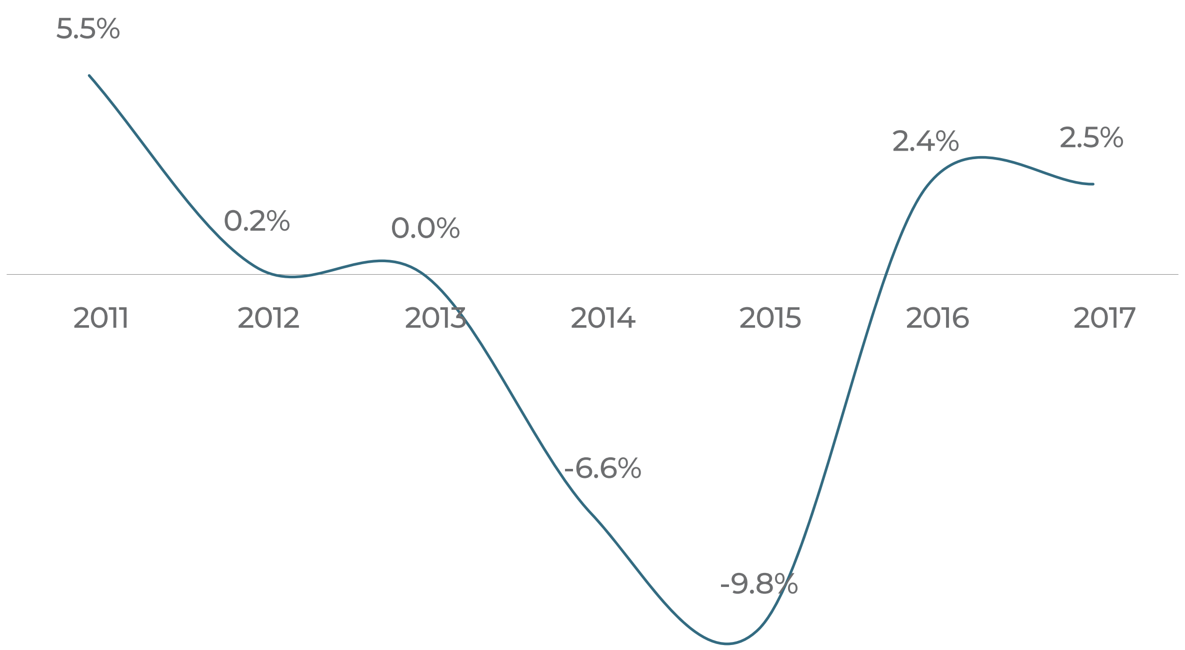
Coal has been one of the main bones of contention, more specifically – anthracite. Anthracite has the highest energy density of all types of coal. It is traditionally used by most Ukrainian thermal power plants. As it happens, most Ukrainian anthracite is mined in the conflict zone and switching to alternative sources of supply has proved difficult. Anthracite is one among many examples of goods that stopped being traded between the two sides. Another big-ticket item is steel.

The debate whether it is moral to keep up business as usual and continue trading normally with entities operating out of the conflict zone split the public opinion. The government, however, eventually came down on the side of those who initiated it rendering the blockade official.

While there may be arguments on both sides, for and against the embargo, one thing appears certain, the blockade has cost Ukraine's economy dearly.

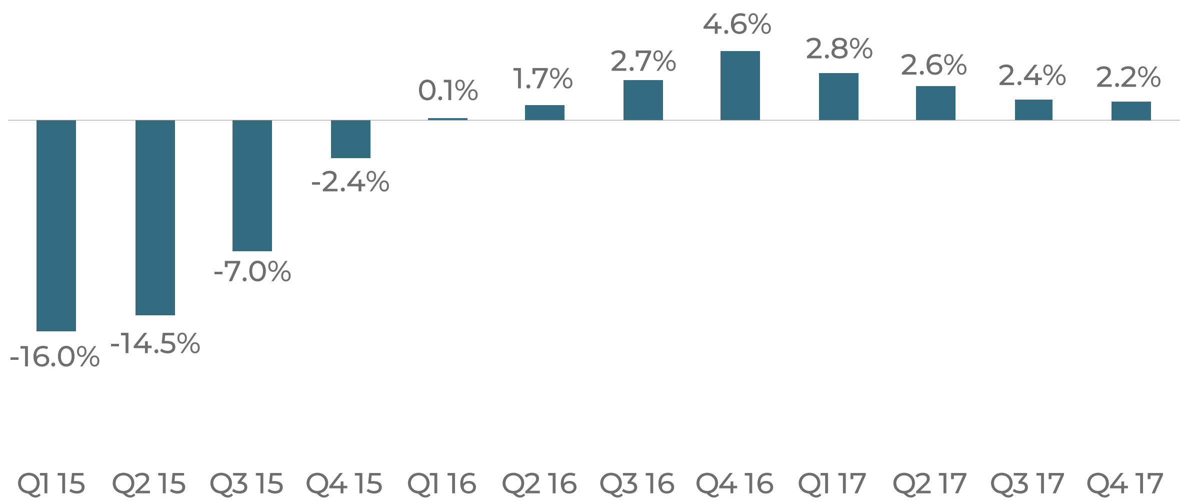
Estimates vary putting the damage done at anywhere between 1% and 2% of GDP[2], a number hard to ascertain because there are other factors that affect economic growth, but according to the official GDP statistics in Q1 2017 GDP growth did slowed down compared to Q4 2016.

Change of GDP in Constant 2010 Prices YoY, % [1]



Source: State Statistics Service of Ukraine

Change of GDP by Quarters in Constant 2010 Prices YoY, %[3]



Source: State Statistics Service of Ukraine

[1] Excludes the Temporary Occupied Territories and Crimea.

[2] Estimates of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine

[3] Excludes the Temporary Occupied Territories and Crimea.

Real Disposal Income Has Yet to Catch Up with Wage Increase to Boost Consumer Demand

In December 2016, the Ukrainian government made a courageous decision to double the minimum wage from UAH1,600 to UAH3,200 in the hope that this would boost domestic consumer demand and retail trade while keeping inflation in check.

The minimum wage growth is a big demand driver because it is serves as a key benchmark for wages, salaries and pensions, both public and private.

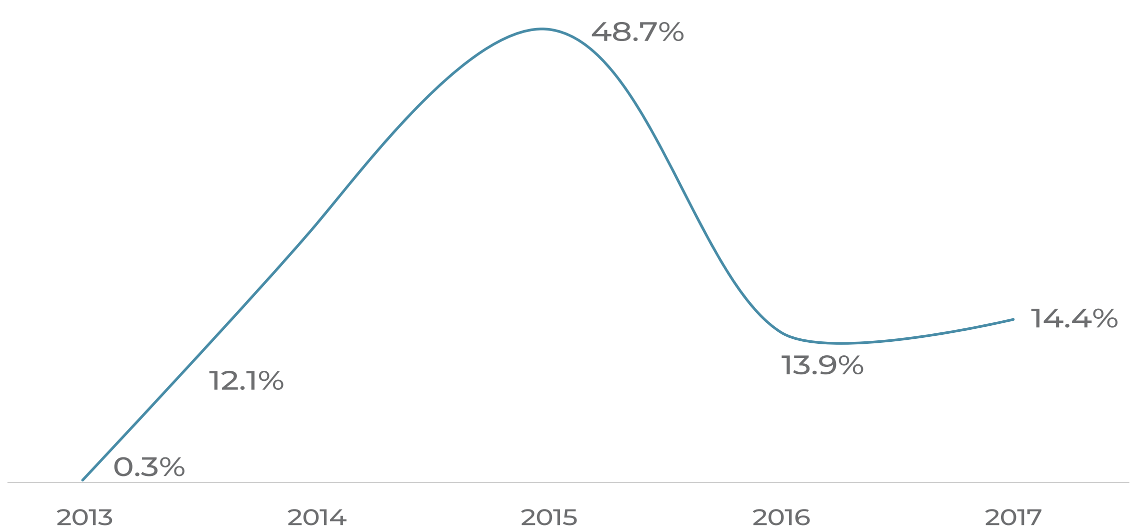
As for the effect from boosting the minimum wage on inflation, opinions vary. The fact is that inflation as measured by CPI grew only marginally in 2017 compared to the year before, to 14.4% in 2017 vs. 13.9% YoY in 2016.

The effect from the minimum wage increase on consumer demand is best measured by real disposable income, which has yet to catch up with the fast pace of wage growth.

As of this writing, the government of Ukraine has increased the minimum wage to UAH 3,723 and announced plans to increase it further to fuel home market expansion.

During 2017, however, much of the positive effect from the wage increases had not yet manifested themselves, which explains, among other things, why total domestic egg consumption fell by 3.3% YoY [1] instead of growing because the stimulating effect from that decision needs time to take hold.

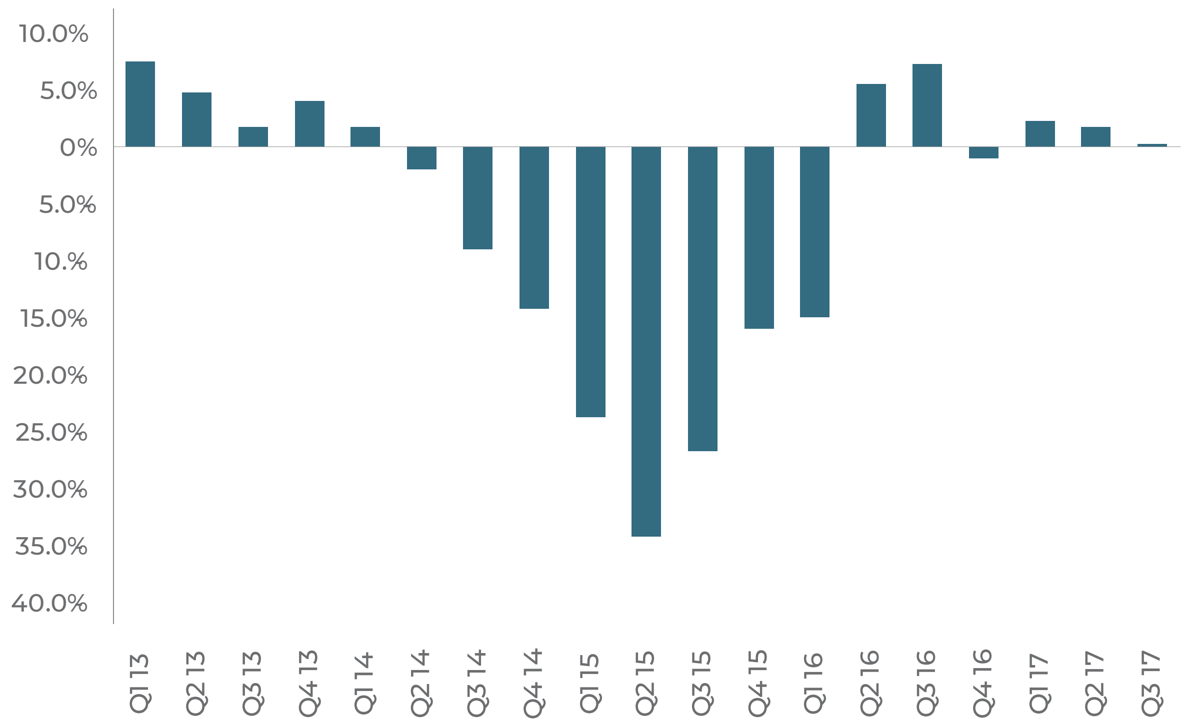
CPI[2], YoY



Source: State Statistics Service of Ukraine

[1] Source: State Statistics Service of Ukraine, Pro-Consulting
[2] Excludes the Temporary Occupied Territories and Crimea

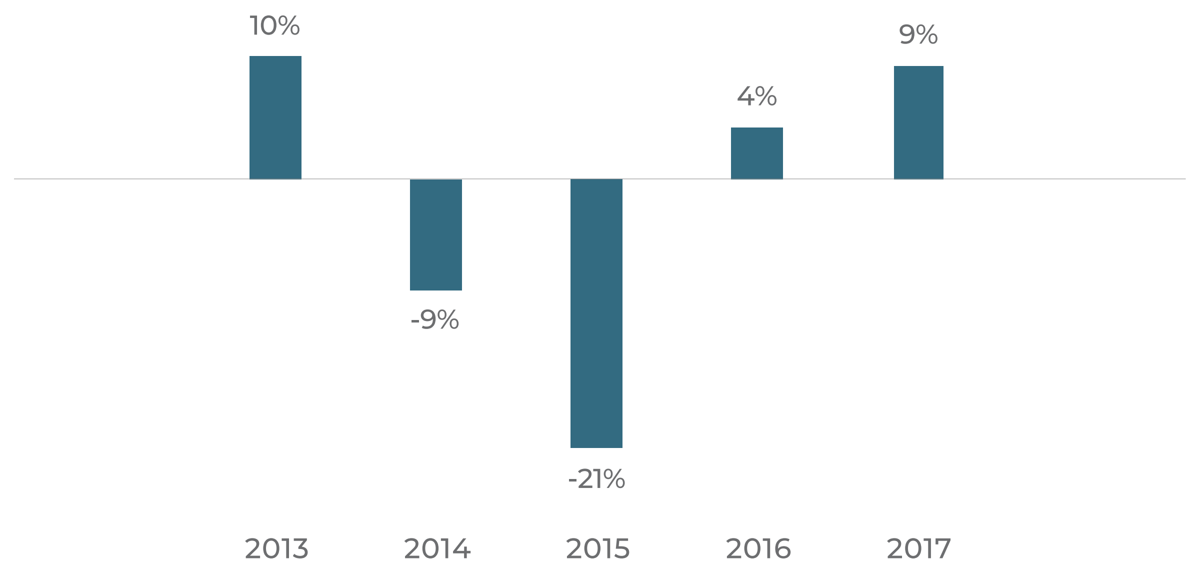
Change in Real Disposable Income of Households YoY,%[3]



Source: State Statistics Service of Ukraine

The good news is that retail trade continues to recover and there's hope that the drastic increases in wages of the past year will eventually pay off over time. In 2017, retail trade grew by a further 9% YoY following a 4% YoY increase the year before.

Change in Retail Trade Turnover in Comparable Prices YoY,%[4]



Source: State Statistics Service of Ukraine

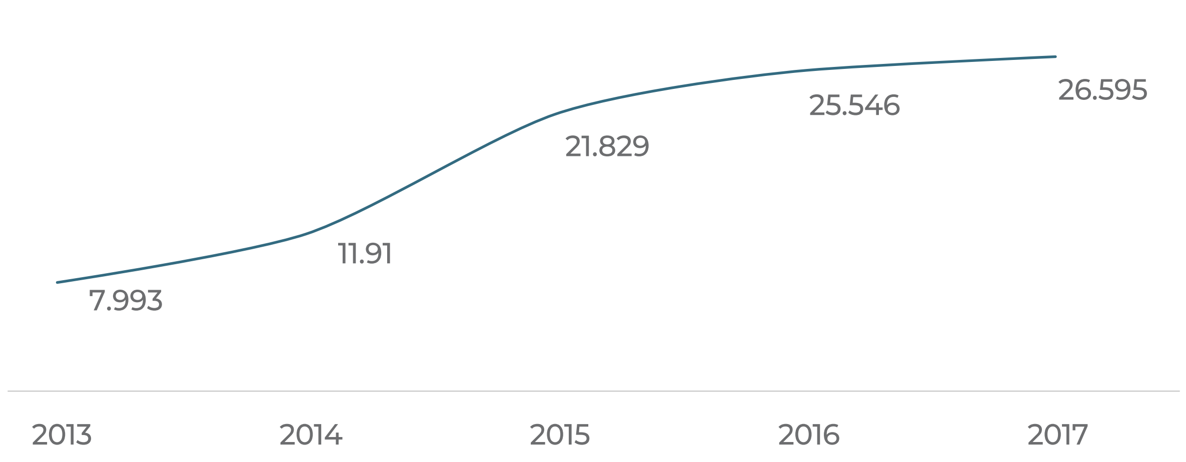
[3,4] Excludes the Temporary Occupied Territories and Crimea

MACROECONOMIC REVIEW

FX Market Headed Towards Stability Despite Pressure from Delayed IMF Assistance

The Ukrainian hryvnia was heading towards stability in 2017, depreciating by 4% YoY[1] against the US dollar following three years of double-digit devaluation between 2014-2016 triggered by the recession.

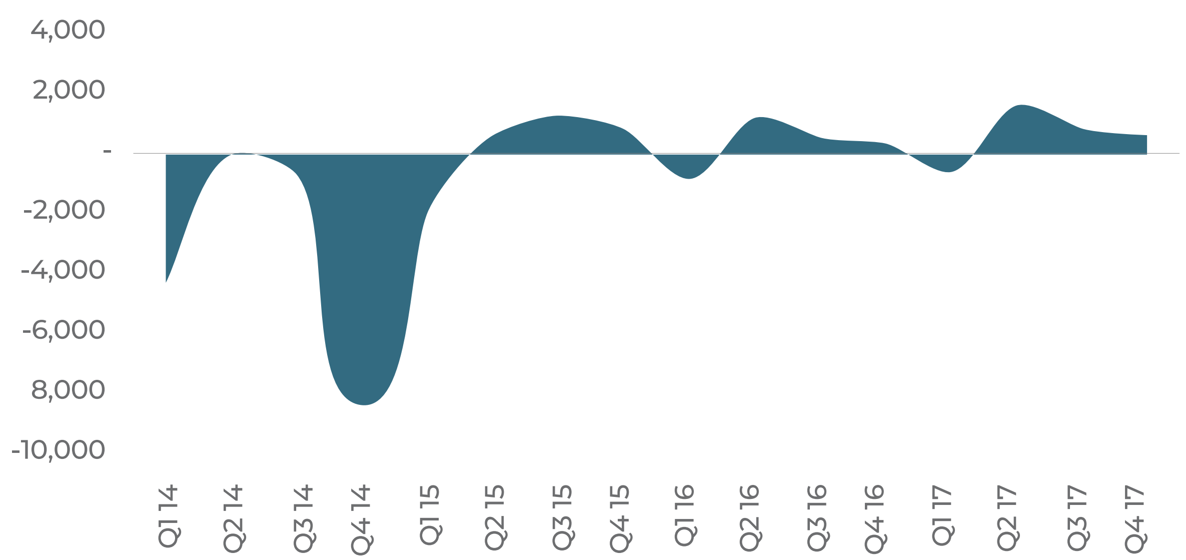
UAH/USD Exchange Rate as at Year End[2]



Source: NBU, company data

The bad news is that many of the pressures that caused the steep devaluation in the first place are still out there. Balance of Payments performance may have been improving ever since it took a dive during 2014-2015 recession but its rate of recovery still falls short of sustaining a stable rate of exchange.

Payment Balance of Ukraine[3], USD mn



Source: NBU, company data

[1,2] Calculated at weighted average rate for the period.
[3] Excludes the Temporary Occupied Territories and Crimea

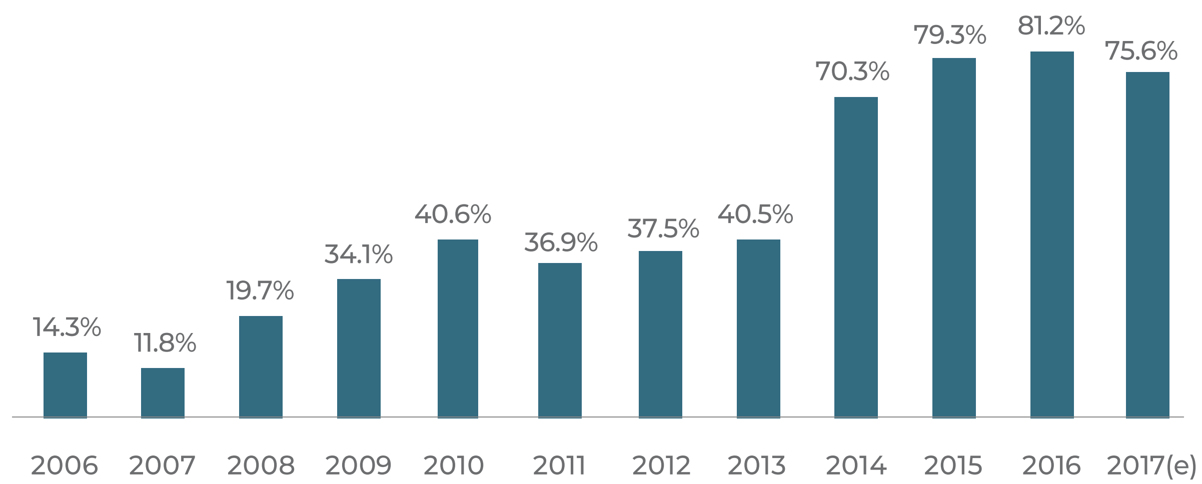
Other factors that continued putting pressure on Ukraine's currency during 2017 came from the country's debt situation. Between 2013 and 2017, the country's debt as a percentage of GDP almost doubled as the government of Ukraine attempted to stabilise the economic situation and the exchange rate of the national currency.

The International Monetary Fund (IMF) remains Ukraine's largest lender. Its USD 17.5 bn support programme has been a life line for Ukraine, but it comes with strings attached. To obtain the funding, Ukraine signed on to a massive reform programme aimed not only at fixing the economy but also at strengthening the country's democratic institutions and fighting corruption.

Unfortunately, Ukraine's late on several deliverables under the IMF programme, that's why no funding has been released by the IMF since April 2017. The freeze in the IMF funding, hopefully a temporary one, caused a chain reaction with other lenders putting their own funding programmes on hold.

The good news is that, as of this writing, Ukraine has started to make progress towards meeting its commitments under the IMF programme with several major reform initiatives in the pipeline including pension reform and the establishment of an anti-corruption court.

Government Gross Debt, % of GDP



Source: IMF

UKRAINE HOME MARKET REVIEW 2017

Shell Eggs: Home Market

Egg Production Returns to Growth after 2 Years of Contraction Despite Continued Decline in Home Consumption

Following the Revolution of Dignity in late 2013, the annexation of Crimea by the Russian Federation in March 2014 and the occupation by Russia of parts of Ukraine's two easternmost provinces of Donetsk and Luhansk, the nation plunged into the worst economic crisis in its independent history.

Between 2014 and 2015, the economy lost 16% of its GDP according to IMF. Some sectors were worse affected than others.

Agriculture was among the few sectors that managed to stay afloat despite heavy losses.

Domestic egg consumption contracted by 17% YoY and 16% YoY[1] in the period between 2014 and 2017, in absolute and per capita terms respectively, under pressure from shrinking purchasing power. Production also declined, both on account of home demand contraction and in response to falling exports resulting from disruptions of trade with some countries of the MENA region.

Towards the end of 2016, the economy started picking up little by little. The recovery continued into 2017 but domestic egg consumption did not rebound, it continued to decline, albeit at a slower pace. This time around, however, a new factor was at play. Utility prices had been raised very substantially forcing households to redistribute their disposable income in order to meet the increased utility bill.

Despite the continued decline in domestic consumption, in 2017 egg production got back on a growth track, increasing 3.2% YoY to 15.6 bn eggs, which was largely driven by a revival of exports following the lifting of bans imposed by several importing countries earlier in the year.

Domestic Egg Prices Reach New Highs and Lows as Import Bans Exacerbate Seasonality

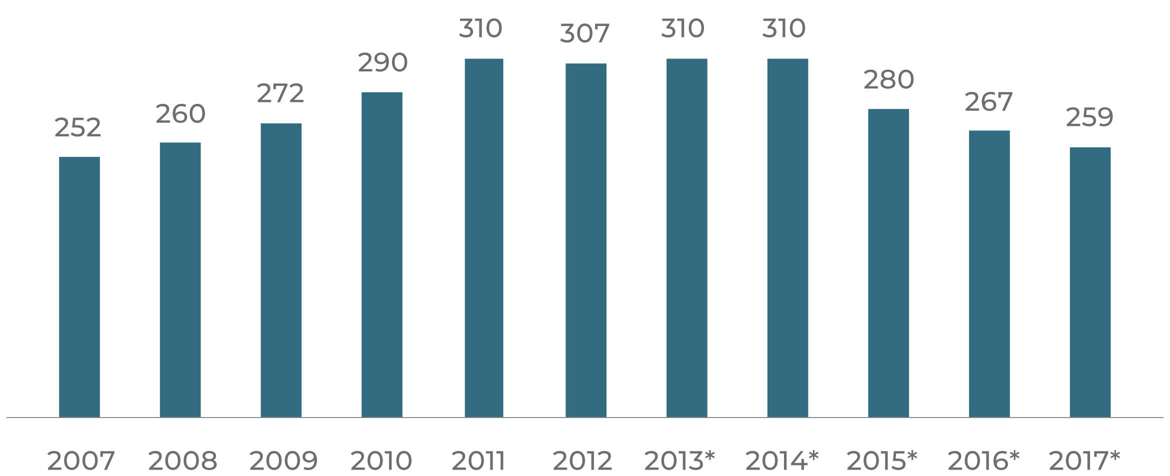
When the current economic crisis broke out following the annexation of Crimea and invasion by Russia of parts of Eastern Ukraine, the consumption of industrially produced eggs contracted substantially as many households switched to rearing chickens at home and consuming eggs produced within the household. Household production as a share of the total started increasing as industry volume dwindled.

The additional supply of eggs from households creates oversupply on the market and this negatively affects the price. Homebred hens only lay eggs when it's warm. In wintertime, egg-producing households switch to eating industrially laid eggs. In the period from late spring to late autumn, however, those households switch back to home-laid eggs. The bad news is not that they produce eggs within the household.

The really bad news is that they overproduce and very substantially at that. The households simply produce more eggs than they can consume. They only wish they could stock them up to last them through the winter but eggs are perishable. This forces the egg-producing households to put any surplus to the market. That's how the supply in the market skyrockets during the summer months driving the prices down, often below industry's break-even point. Then, in late autumn, household production drops and the prices rebound.

In 2017, seasonality in the home market got particularly strong with price fluctuations growing larger than ever. It was brought on by a perfect-storm situation when during the seasonal glut caused by increased household production most importing countries imposed trade bans on Ukrainian poultry products following an outbreak of avian influenza in Ukraine. The trade bans were lifted and domestic egg prices rebounded quite strongly by the end of the year. During the summer, the price hit a new low of UAH 9.71 per 10 eggs in July. In December of 2017, it reached a new high of UAH 23.54 per 10 eggs.

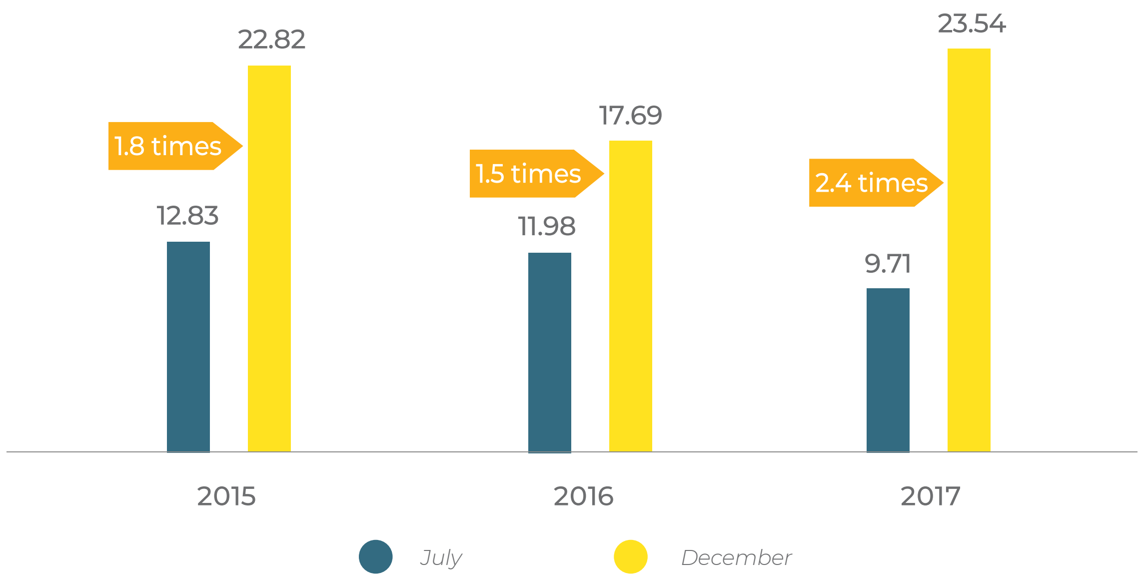
Domestic Consumption of Eggs Per Capita



Source: State Statistics Service of Ukraine, Pro-Consulting

(*) Excludes the Temporary Occupied Territories and Crimea

Seasonality of Shell Egg Prices in Ukraine's Home Market, 2015-2017



Source: State Statistics Service of Ukraine, Pro-Consulting

[1] State Statistics Service of Ukraine, Pro-Consulting

In 2017, the gap between the high and the low was as large as 2.4 times or 143%. Such wild price fluctuations render the market unpredictable making it next to impossible for families to plan their budgets.

As Ukraine's largest egg producer, Avangardco IPL always took it upon itself to lead the way in promoting a healthy domestic market for shell eggs, one that would be immune to unchecked seasonal swings in supply volume, predictable and with consistent pricing.

And we were well on our way to achieving that. The share of households in total egg production was consistently contracting reaching its lowest point in 2014 at 36% before it started growing again when industry gave way under the heavy pressures of the current crisis.

By the time it started, the market had largely normalised, in no small part through the company's efforts, reducing the seasonal price variances down to a minimum. In 2013, the price gap between July and December was a mere 15%. Compare that to the 143% in 2017!

While such actions as the imposition of trade bans are outside our control, we know what needs to happen domestically for the market to get back to normal again. Industry must regain its market share, the sooner the better. And this process has begun.

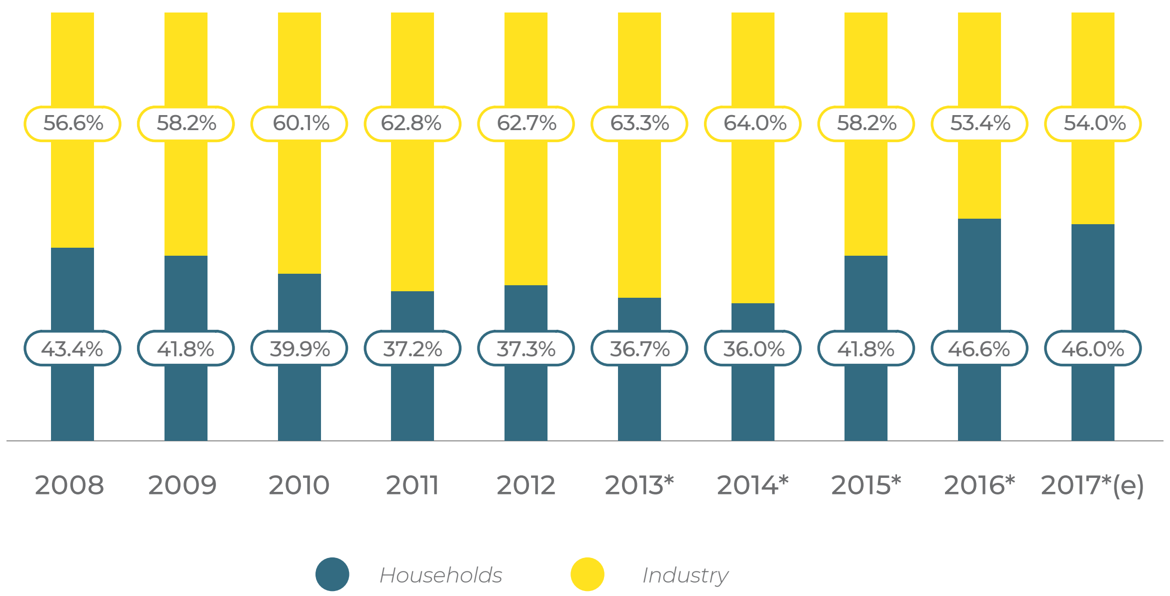
Industry Begins to Regain Market Turf Slowly but Steadily

In 2017, Ukraine's egg-farming industry scored a small yet important victory. For the first time since 2014, industry got the upper hand again in its struggle for market share with households.

While both segments grew insubstantially, industry did better than households and the shares were slightly redistributed by the end of the year in favour of the former.

It is a small gain of only 0.6 p.p. but it is very important because it serves as an indication that the market has started to get back to normal.

Shares of Industry and Households in Ukraine's Shell Egg Production, %



Source: State Statistics Service of Ukraine, Pro-Consulting
(*) Excludes the Temporary Occupied Territories and Crimea

Shell Eggs: Exports

Trade Bans Triggered by Bird Flu Outbreaks Take Heavy Toll on Exports and Harm Home Market in 1st Half of 2017

The dramatic decline in the home demand for eggs has forced many Ukrainian industrial egg producers to seek new markets outside Ukraine.

Both mature exporters and their less experienced competitors have been actively exploring opportunities of exporting their shell eggs and egg products to foreign markets.

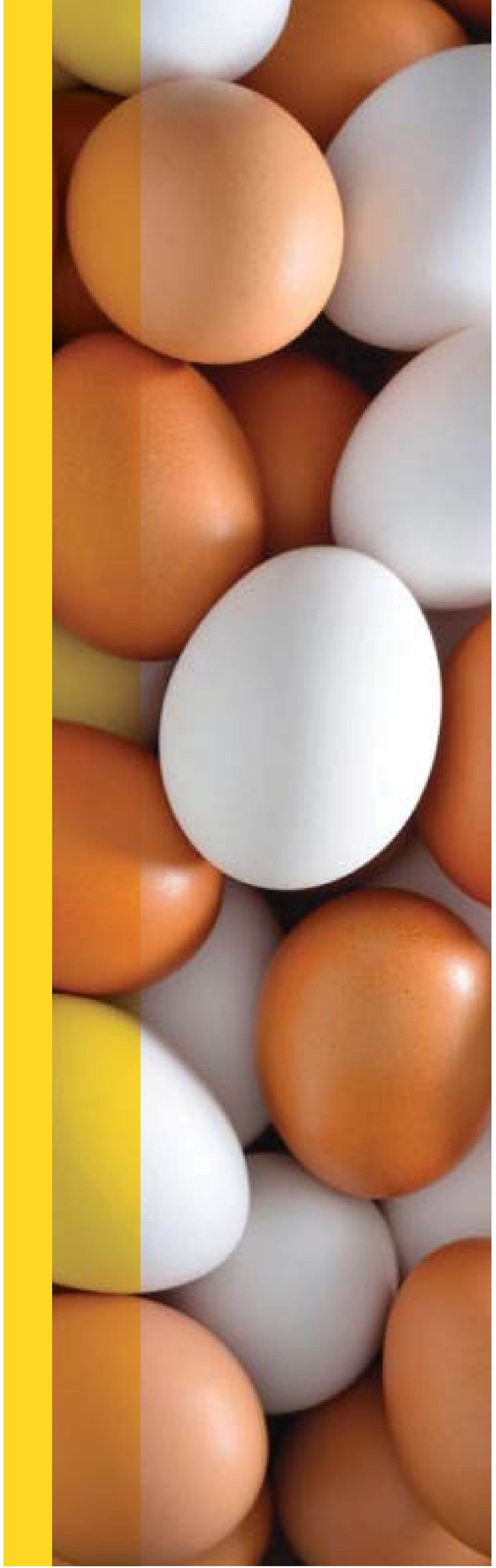
Exporting benefits not only the exporters, it benefits the entire domestic market by venting off any excessive volume of supply from the market and thus keeping up the equilibrium price. Whenever exports are disrupted, especially during the warm season when household production peaks, the home market becomes oversupplied and domestic prices collapse.

That is exactly what happened in the first half of 2017. An outbreak of avian influenza in Kherson and then Chernivtsi and Odessa Regions triggered a series of trade bans by most importers of Ukrainian poultry products including shell eggs and egg products.

In March 2017, Iraq, China, Qatar, Yemen, Jordan introduced a temporary import ban on poultry products from across Ukraine. Hong Kong, the EU, Saudi Arabia and the UAE banned imports from the affected regions only.

Towards the second half of the year the bans were largely lifted and normal trade resumed but the damage to the home market was done. Most industrial producers were forced to sell below cost and take heavy losses.

However, avian influenza was not detected at any of Avangardco's production facilities.



Despite the fact that one of the bird flu outbreaks took place in Kherson region where one of the company's flagship assets, Chornobaivske, is located, the complex is strongly protected from all known biological hazards by our solid biosecurity defences.

However, in most cases, countries impose wholesale bans on any imports of a given product from a given country. Some, however, apply the so-called principle of regionalisation as was the case with the recent trade bans. Specifically, the EU, Hong Kong, Saudi Arabia and the UAE.

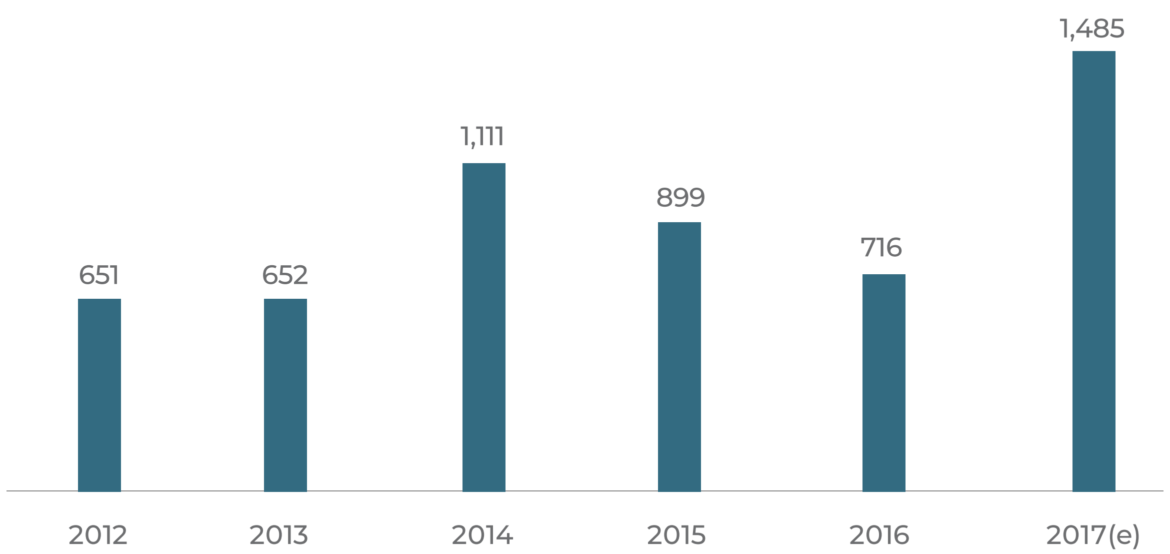
Exports Rebound in 2nd Half of 2017 and Reach an All-Time High

Fortunately, in the 2nd half of 2017 most trade bans were lifted and exports of eggs rebounded. In fact, they skyrocketed reaching an all-time high with 1.5 bn shell eggs sold to foreign markets in 2017[1].

The volume of shell-egg exports in 2017 was 2.1 times larger than the year before.

And it is quite remarkable that the record sales did not come solely from resuming trade with Ukraine's traditional foreign buyers.

Ukrainian Exports of Shell Eggs, mn eggs



Source: State Statistics Service of Ukraine, Pro-Consulting

[1] Source: State Statistics Service of Ukraine, Pro-Consulting

Geographies Expand as New Markets Open Up to Ukrainian Egg Exports

While MENA remained Ukraine's largest export destination, more markets were added in 2017 whose share might not have been significant but is rapidly growing.

Specifically, Ukraine started selling shell eggs to such new country markets as Tunisia, Somalia, the Maldives and three EU member states, namely, Germany, Italy and Latvia.

Export Geographies for Ukrainain Shell Eggs

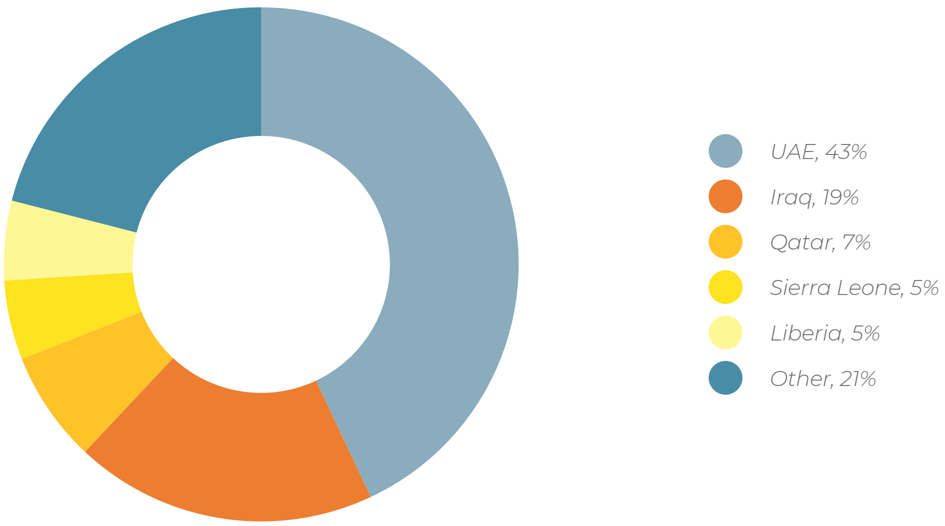
Source: State Statistics Service of Ukraine, Pro-Consulting

Shell Egg Export Destinations in 2017:

1 Azerbaijan
2 Afghanistan
3 Bahrain
4 Gambia
5 Guinea
6 Germany
7 Hong Kong
8 Greece
9 Georgia
10 Djibouti
11 Iraq
12 Italy
13 Cape Verde
14 Qatar
15 Congo
16 Latvia
17 Liberia
18 Libya
19 Maldives
20 Moldova
21 UAE
22 Oman
23 Pakistan
24 Saudi Arabia
25 Syria
26 Somalia
27 Sierra Leone
28 Tunisia
29 Turkey
30 Central African Republic

In 2017, MENA accounted for 79% of Ukrainian shell-egg exports, Sub-Saharan Africa had a share of 12%, CIS – 6% and EU – 2%.

Top 5 Ukraine's Shell Egg Export Markets by % of Export Revenue in 2017



Source: State Statistics Service of Ukraine, Pro-Consulting

Ukrainian Shell Eggs Coming to EU Supermarket Shelves

In 2017, Ukrainian table eggs were finally admitted to the EU Internal Market. Two leading industrial egg producers, Ovostar and Avangardco IPL, have been licenced to sell Category A (table) eggs.

The first EU member states that started buying Ukrainian table eggs in 2017 were Germany, Italy and Latvia.

While the share of the EU in Ukraine's shell-egg exports remains insignificant, the fact that the country has been admitted as a supplier of table eggs could hardly be overestimated. The EU is the world's largest and most lucrative market. Ukraine has a huge logistical advantage when it comes to trading with the European Union vis-à-vis other non-member suppliers, it shares a border with the EU.

The opening of the EU market for Ukrainian table eggs is very symbolic in that it serves as solid proof of acceptance of the high-quality and safety of shell eggs produced by the country's top industrial egg producers, of which Avangardco IPL is the largest.

Egg Products: Home Market & Exports

Carry-forward Stocks Keep Production Down while Demand Stays Low

During 2017, most egg processors including Avangardco IPL had to cut production because they were still sitting on substantial inventories from the year before that they were having trouble selling off as demand stayed low.

The inventories had been built up during 2016 and not in response to demand for egg products but rather as a defensive strategy to protect Ukraine's domestic shell egg market by converting any excessive volume into egg products with a much longer shelf life.

In 2017, production declined by 4.5% over the year before reaching a total volume of 22.2 thousand tonnes[1]. At the same time, the production of liquid egg products increased relative to 2016.

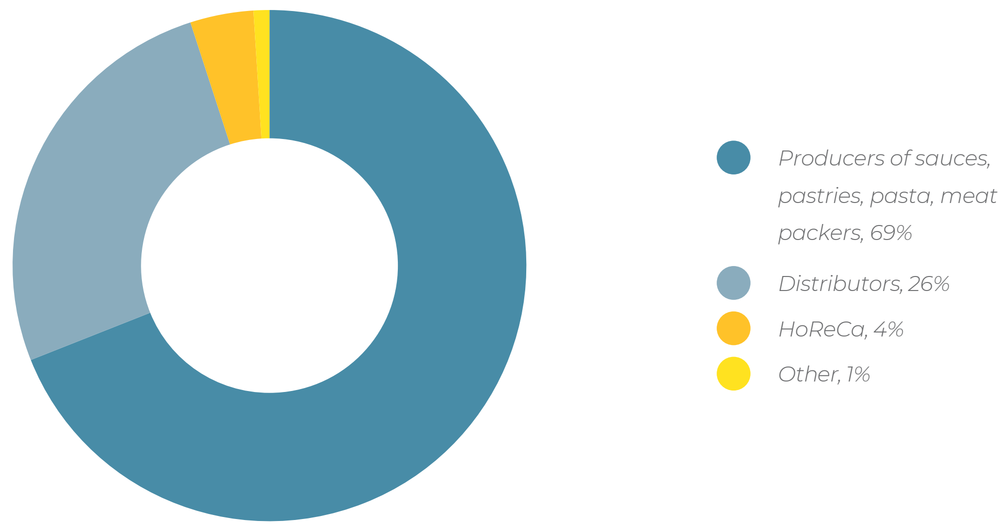
Home Consumption Stays Low Yet Steady

While Ukraine has one of the highest levels of egg consumption per capita, 259 as of 2017, down from a high of 310 in 2014, a very small proportion of that consumption occurs indirectly, i.e. in the form of egg products, as few as 17 eggs per capita per year. In the US it is 80, in France – 90 and in Japan it is 170. So, Ukraine's market for egg products holds a vast potential that has yet to be harnessed.

In Ukraine, the market for egg products is predominantly a B2B market, where the buyers are companies that either use egg products as ingredients in their own production process or act as intermediaries. There is virtually no retail market for egg products, e.g. instant omelettes.

Most B2B buyers are producers of sauces, pasta, pastries and meat packers. Some are hotels, restaurants. Others are distributors.

Ukraine's Home Market for Egg Products by Buyers in 2017E

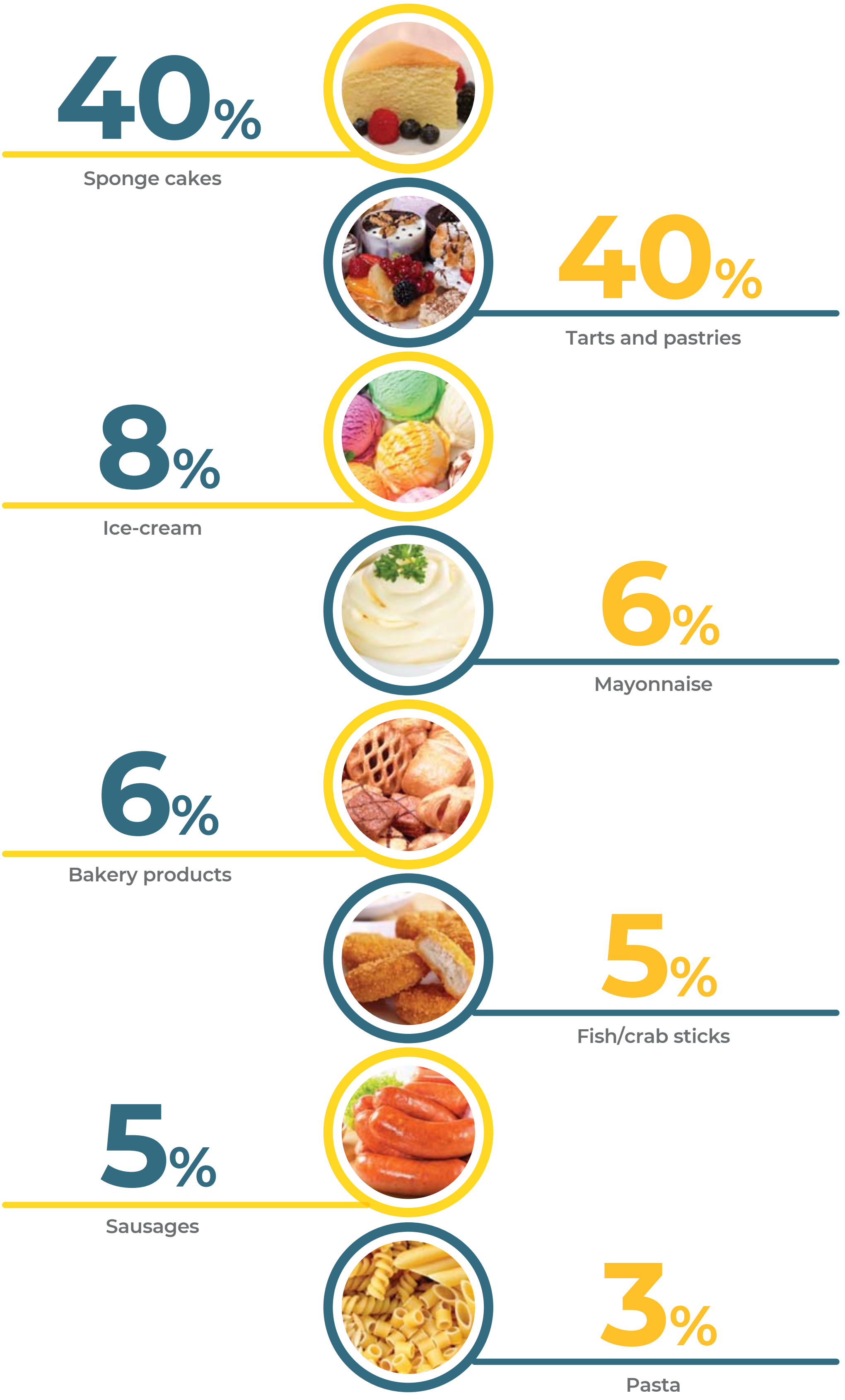


Source: Pro-Consulting

[1] Source: State Statistics Service of Ukraine, Pro-Consulting

Different buyers require different varieties of egg products. For example, mayonnaise makers need egg-yolk powder, while producers of crab sticks use dry egg whites, aka albumen. Depending on the product, the content of egg ingredients may vary.

Content of Egg Ingredients by Product



Source: Pro-Consulting

Exports Nosedive as Competition Toughens

In 2017, Ukrainian exports of egg products dropped by nearly half to 5 thousand tonnes, which accounted for 50% of total production of dry egg products. The main factors responsible for this were as follows.

US egg processors make a grand comeback

In the period between December 2014 and mid-June 2015, the US egg-processing industry declined quite substantially following a series of bird flu outbreaks. By the end of 2016 - 2017, however, it had fully recovered and embarked on an aggressive reconquest of the world market. As a consequence of the recovery, the US egg-processing industry overproduced massively in 2017, which explains its forceful sales promotion strategy often involving price undercutting. Being the world's largest producer, the US sent a powerful ripple all over the global market as it tucked into other suppliers' market shares including Ukraine's.

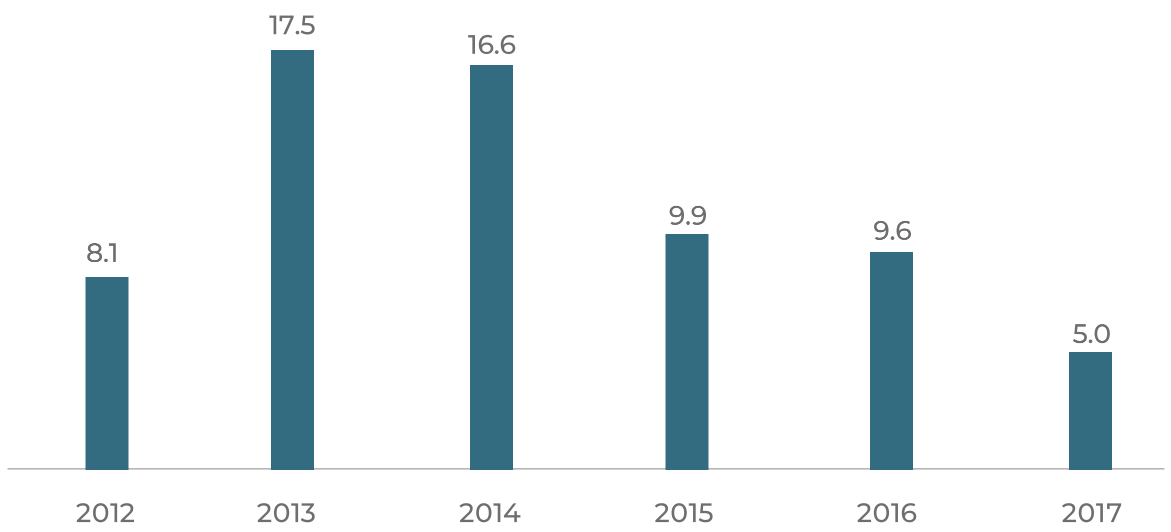
Exports to Denmark suspended in Q2-Q3 2017

Denmark is Ukraine's largest buyer of egg products among its EU country markets. The Danish company Sanovo is also one of the largests client buying Ukrainian egg products. The terms are negotiated individually for Sanovo. In early 2017, the new round of negotiations stalled over prices, which was to be expected after the return to the world market of major US producers. As a result, exports to Denmark were discontinued in Q2 2017 and did not resume until Q4 2017.

It took considerable time to renew import licences after trade bans were lifted

In H1 2017, several importing countries imposed bans on Ukrainian poultry products including egg products following an outbreak of avian influenza in Kherson Region of Ukraine. The bans were largely lifted during the second half of the year but it took Ukrainian exporters considerable time to renew the import licences.

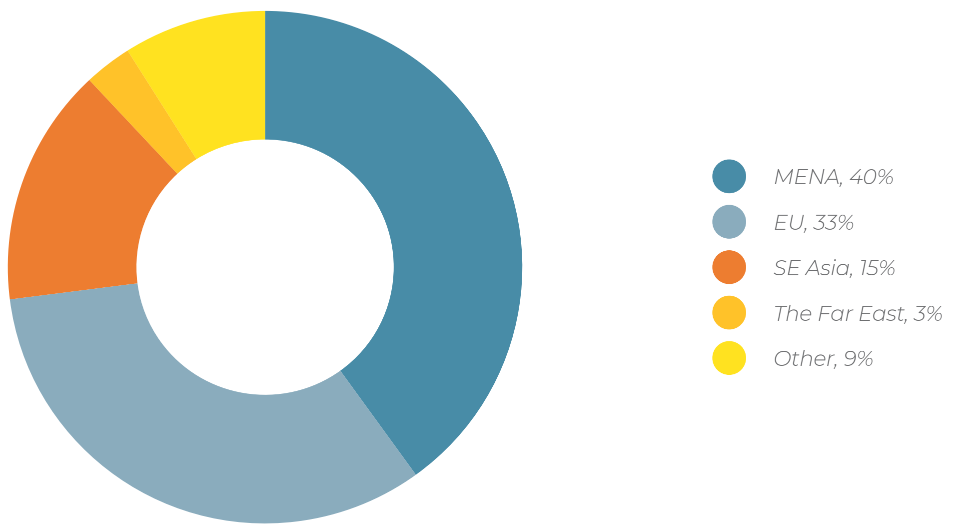
Ukraine's Egg Product Exports, th tonnes



Source: State Statistics Service of Ukraine, Pro-Consulting

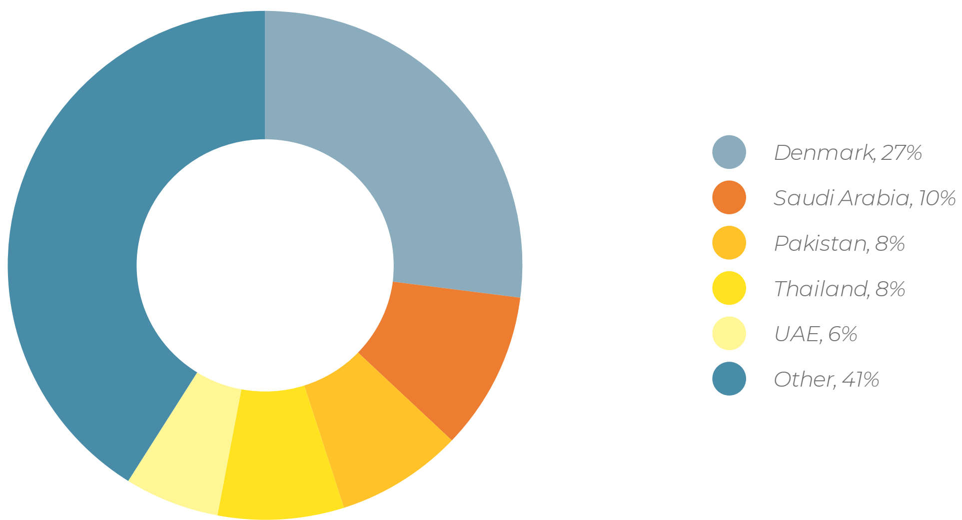
MENA and the EU traditionally remained the largest buyers of Ukrainian egg products during 2017. Those markets are the world's largest in terms of market capacity but the competition there is tougher than elsewhere.

2017 Exports of Egg Products by Region in Value Terms



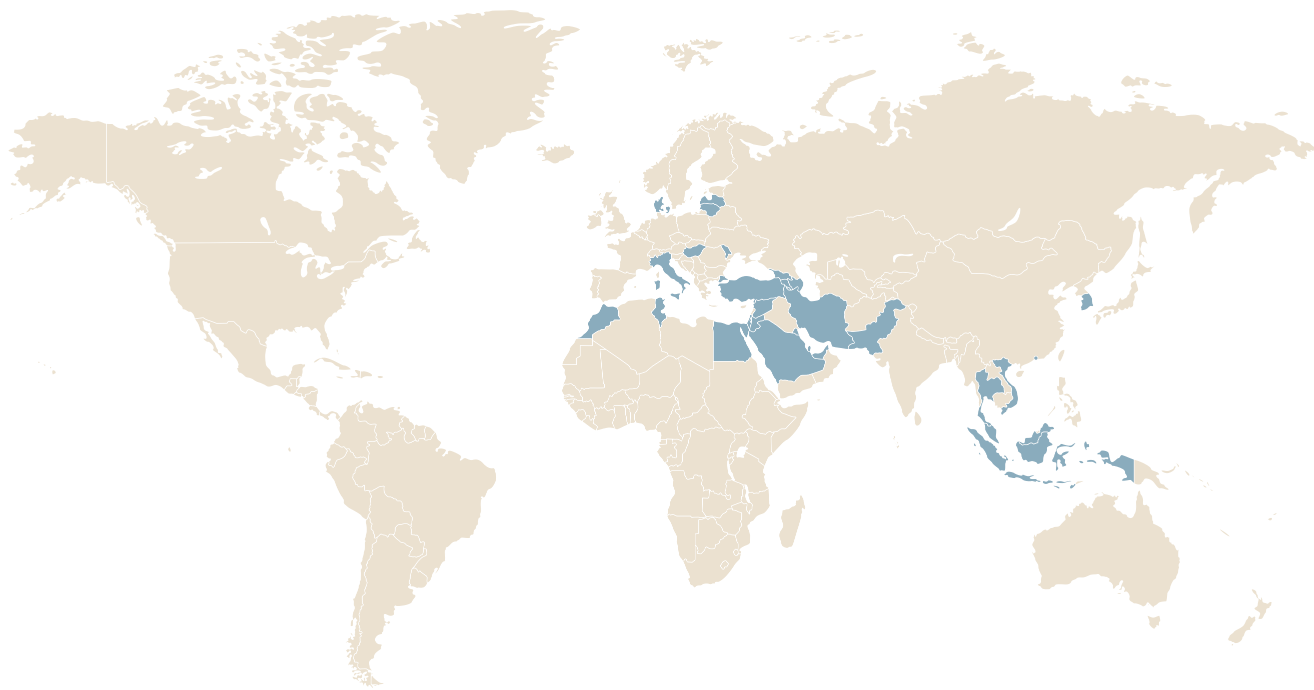
Source: State Statistics Service of Ukraine, Pro-Consulting

Top 5 Ukraine's Egg Product Export Markets by % of Export Revenue in 2017



Source: State Statistics Service of Ukraine, Pro-Consulting

Export Geographies of Ukrainian Egg Products



Source: State Statistics Service of Ukraine, Pro-Consulting

Egg Product Export Destinations in 2017:

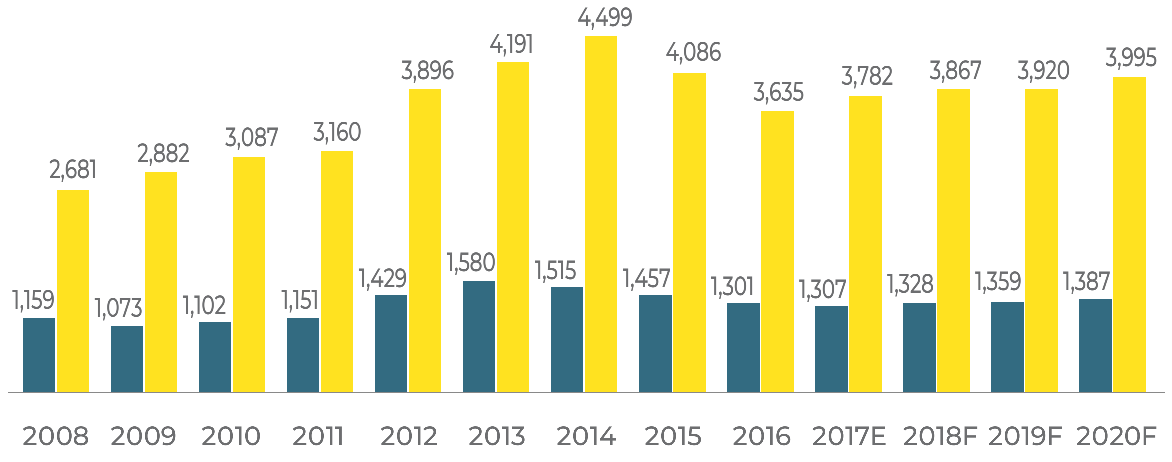
1 Azerbaijan
2 Vietnam
3 Armenia
4 Hong Kong
5 Georgia
6 Denmark
7 Egypt
8 Jordan
9 Israel
10 Indonesia
11 Iran
12 Italy
13 Qatar
14 Kuwait
15 Latvia
16 Lebanon
17 Lithuania
18 Morocco
19 Moldova
20 UAE
21 Pakistan
22 Saudi Arabia
23 Syria
24 South Korea
25 Taiwan
26 Thailand
27 Tunisia
28 Turkey
29 Hungary
30 Malaysia

WORLD MARKET FOR SHELL EGGS AND EGG PRODUCTS

Market for Shell Eggs Grows by 4% YoY, Egg Product Market Stays Flat

During 2017, world trade in shell eggs and egg products slightly picked up with global shell-egg imports growing by 4% YoY reaching a total value of USD 3,782 mn while imports of egg products edged up by 0.5% YoY to USD 1,307 mn.

Global Imports of Shell Eggs and Egg Products, USD mn

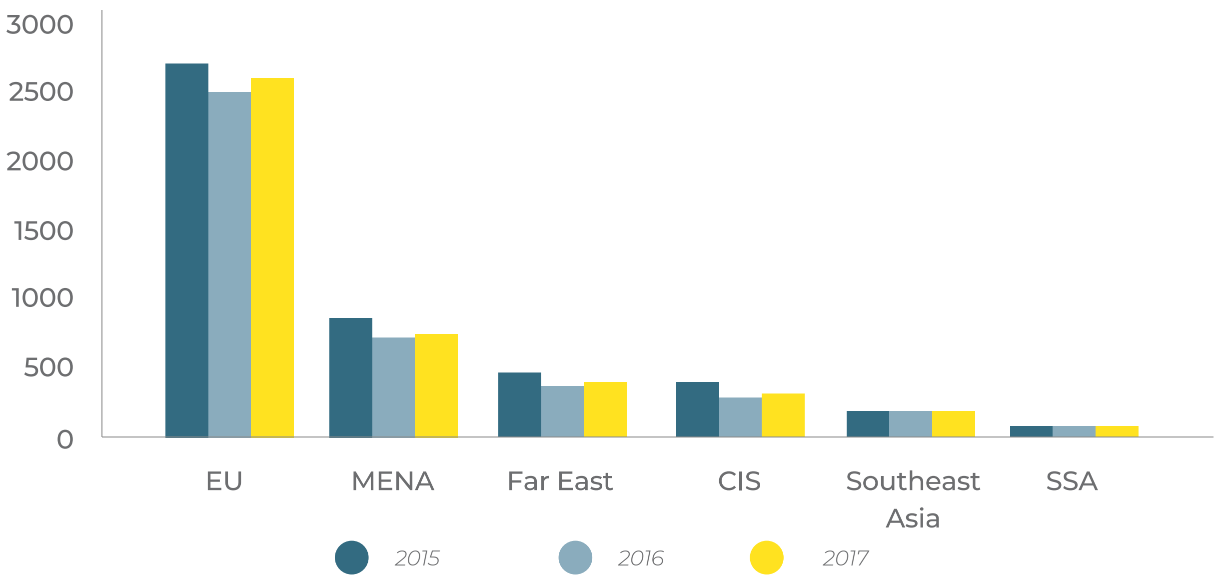


Source: International Trade Centre, Pro-Consulting

EU and MENA Continue to Lead World Market Growth

Most of this growth came from increasing trade with the EU and MENA.

Imports of Shell Eggs and Egg Products by Region, USD mn



Source: International Trade Centre, Pro-Consulting

European Union

Most EU trade takes place within the Union, between individual EU member-states. In 2016, imports of shell eggs into the EU from third countries accounted for a mere 2.3% of the total in value terms[1]. So, EU shell-egg and egg-product imports are largely driven by trade within the EU Internal Market.

For example, in 2012, imports of shell eggs and egg products soared to record highs. It was caused by the EU Council Directive 1999/74/EC of 19 July 1999 banning conventional cages becoming mandatory. Not all EU producers had completed the conversion by the required date, which created a shortage of both shell eggs and egg products. The shortage was covered by increased trade between individual EU member-states coupled with increased third country imports. Ever since the situation has been improving year after year with imports consistently diminishing.

In 2017, however, imports of shell eggs and egg products increased again, this time by 4% YoY in value terms[2]. It was caused by the discovery of traces of fipronil (a toxic insecticide) in eggs from the Netherlands and Belgium on supermarket shelves in Germany in August 2017. They later found traces of the same substance in most other EU member states and in several countries in Africa and Asia importing eggs from the EU. The affected batches of both shell eggs and egg products were recalled and exterminated. The farms, from which the contaminated eggs had originated, were ordered to slaughter their flocks fully or partially. The shortages that resulted from that were covered by increased trade between EU member-states, as well as imports of shell eggs and egg products from third countries, which rose by 30% YoY[3] in volume terms in 2017 alone.

[1,2] Source: International Trade Centre, Pro-Consulting
[3] Source: European Commission

MENA

After two years of contraction, MENA is back on a growth track. In 2017, imports into MENA of shell eggs increased by 4% YoY and egg products by 2.9% YoY in value terms[1]. This serves as evidence that the region is slowly but steadily recovering after a long and exhausting military conflict that still continues but not as intensively.

Iraq being the largest importer of eggs in the region and Ukraine's top importer also demonstrated positive growth dynamics. In 2017, egg imports into Iraq rose by 13.8% over the year before reaching a total volume of 284 thousand tonnes, which fell short of the all-time high of 320 thousand tonnes though[2].

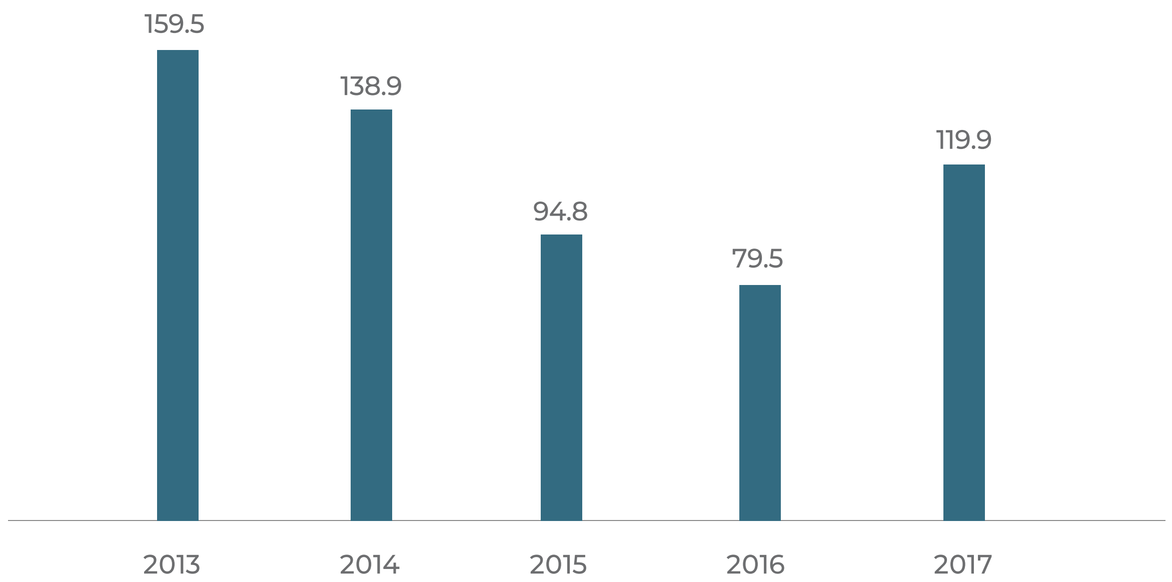
US Overproduces Massively and Brings Down World Egg Product Prices

While the global market for egg products demonstrated positive growth dynamics during 2017, competition toughened considerably. It was caused by a substantial overproduction in the US coupled with a contraction in demand for imported egg products on the part of Japan.

In 2015, a wave of bird flu outbreaks swept across the United States, which led to a reduction in flock sizes and production volumes. By early 2016, the situation had started to stabilise and towards the end of the year early signs of overproduction began to manifest themselves. According to USDA, a total of 105.7 bn eggs were produced in the US in 2017, which was 4.7% higher than in the problem-free year of 2014. Producers were forced to convert a substantial volume of eggs into egg products and launched an offensive to reconquer their lost market share, often through price dumping. Towards the end of 2017, egg product prices started getting back to normal.

The undisputed leader in egg product imports is Japan. In 2015, Japan alone accounted for 13.6% of global imports of egg products by value. Over the past two years, however, its volume has dropped by 42% in value terms. As of 2017, Japan's share of the global market shrank to 8.7%[3]. This had an immediate effect on global competition making it tougher.

US Exports of Egg Products, USD mn



Source: International Trade Center, Pro-consulting

[1,2,3] Source: International Trade Centre, Pro-Consulting

Ukraine's Market Share in Egg Products Dented by US Price Undercutting but Only Temporarily

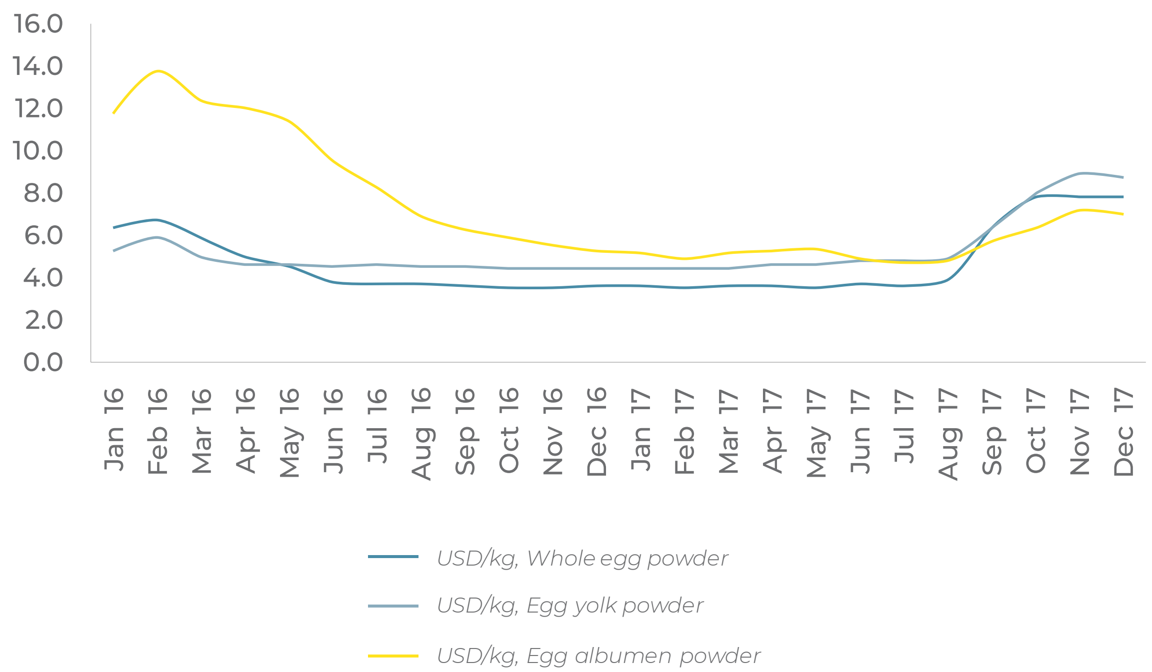
Ukrainian producers have always found it hard to compete with global leaders, such as the US or EU. It was never about quality; the Ukrainian quality is on a par with that of established market leaders. The key wordhere is 'established'.

US and EU suppliers wrote the book on selling egg products, they have an established clientele and command the respect and acceptance of the world's top buyers. Ukraine's been forced to compete on price and has done it quite successfully until recently.

When in 2017 major US producers started cutting prices to offload the extra volume it hit Ukraine and other low-cost market players the hardest.

The good news is that this was most probably a one-off and the global competitive environment will most likely revert to its normal status quo provided that the market continues growing. As of this writing, the rebound has actually already started as evidenced by the price chart below:

Sales Price for Dry Egg Products in the US



Source: USDA

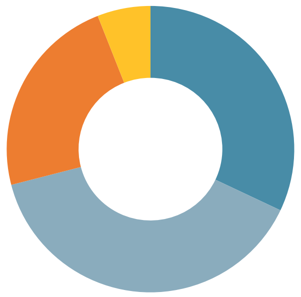
Ukraine has been successfully selling to dozens of country markets all over the globe and the current decline in its market share is only temporary.

KEY SHELL EGG IMPORTERS

EU

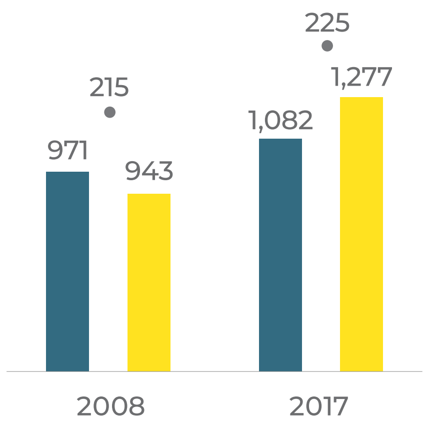
Share of global imports - 47 %
Production - 7.6 mn tonnes

Key Importers in the Region, %:



- High levels of economic development, flat population growth, high incomes and urbanization rates.
- EU egg demand almost fully satisfied by local production.
- EU egg market fairly balanced with steady production volume.
- Most of the trade conducted intra-EU with relatively low volumes from beyond its borders (2.3% in value terms in 2016).
- The reported Fipronil contaminated eggs across EU in 2017 led to the increase in both - shell egg trade between EU member-states and imports from the third countries.
- Import demand largely driven by demand for eggs for further processing.

Key Metrics:

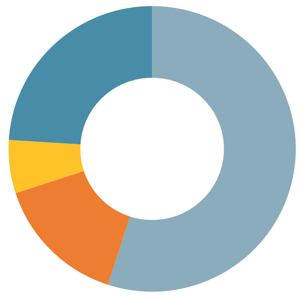


Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

MENA

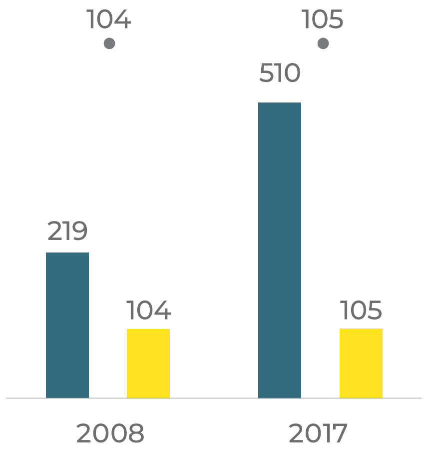
Share of global imports - 17 %
Production - 3.9 mn tonnes

Key Importers in the Region, %:



- MENA has huge oil reserves generating most income.
- High population growth; some countries have doubled population in the past 20 years.
- Middle class set to grow boosting purchasing power.
- MENA has changed dramatically in the past fifty years. Caloric intake has increased by 54% and protein intake by 57%. Protein intake stil lower than in developed countries.
- Lack of water resources constraining local agriculture and encouraging imports.
- Imports growing consistently with Turkey traditionally in first place among exporters to the region and expanding in recent years within increased imports from the European Union and Ukraine.
- A military conflict and political instability in 2015-2016 led to a partial closure of borders and significant complications of import procedures. However, in 2017 the geopolitical situation in the region started to gradually stabilise.

Key Metrics:



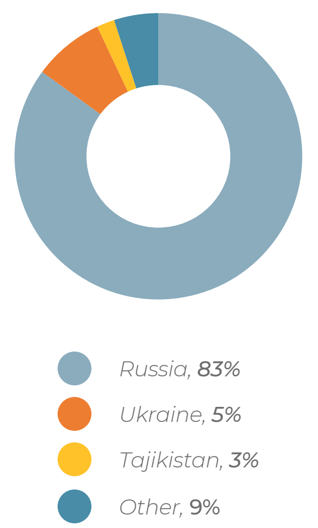
Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

MARKET OVERVIEW

CIS

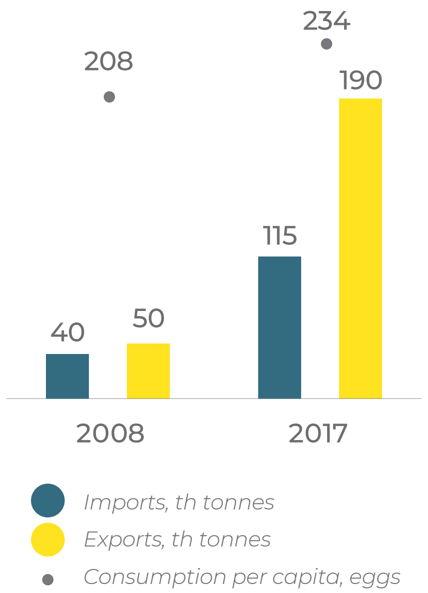
Share of global imports - 8 %
Production - 5.0 mn tonnes

Key Importers in the Region, %:



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

Key Metrics:

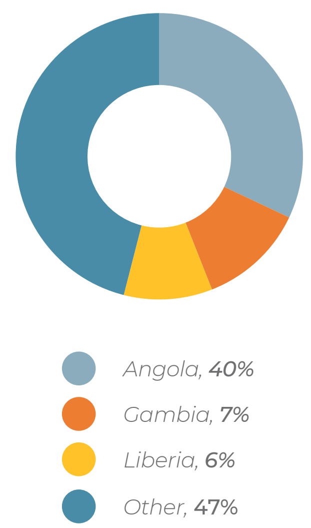


Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

Sub-Saharan Africa

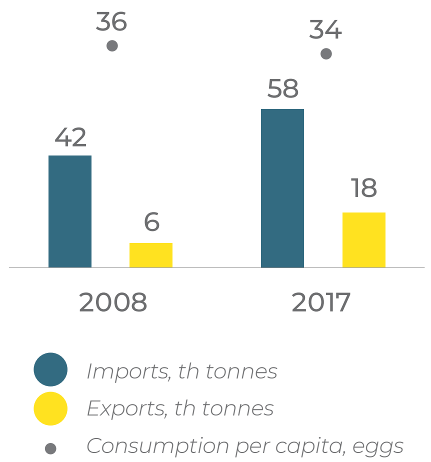
Share of global imports - 2 %
Production - 2.0 mn tonnes

Key Importers in the Region, %:



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

Key Metrics:



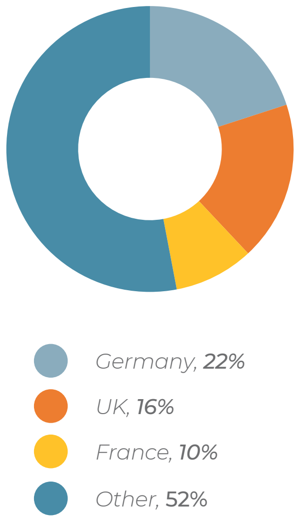
Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

KEY EGG PRODUCT IMPORTERS

EU

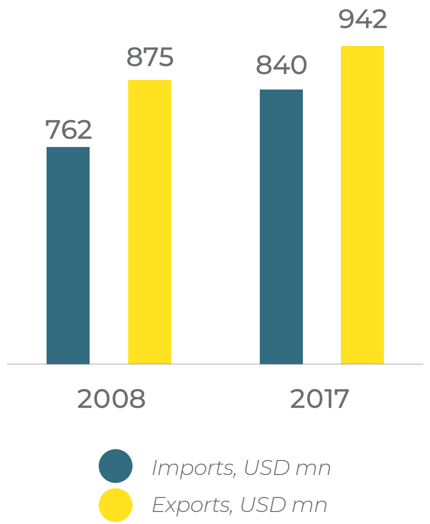
Share of global imports - 64 %

Key Importers in the Region, %:



- European countries among the world's largest producers and consumers of egg products.
- In some EU countries more than half of all eggs produced turned into egg products.
- Most of the trade is intra-EU.
- Liquid egg products dominate imports as most of it takes place between EU member states.
- In the past several years, the share of exports of dry egg products outside the EU has been increasing.
- In 2017, as a result of Fipronil egg contamination, egg product trade within the EU increased in order to overcome the domestic shortage in egg products. Consequently, export of egg products from the EU decreased.

Key Metrics:

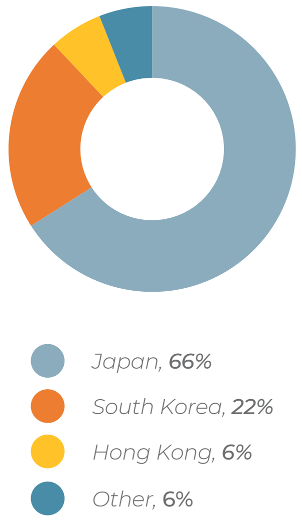


Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

Far East

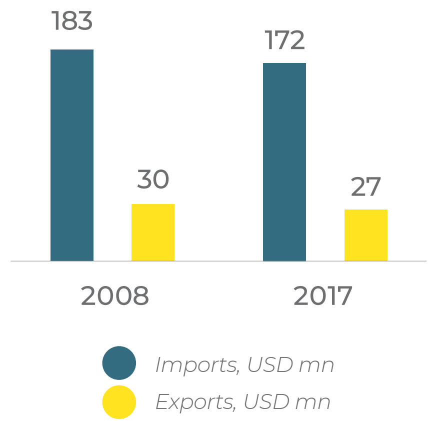
Share of global imports - 13 %

Key Importers in the Region, %:



- A large population and high rates of economic development.
- Japan, a global and regional leader in egg product imports with a highly developed egg processing industry. Japan consumes more than 50% of all eggs produced in the country in the form of egg products. However, in the last two years Japan reduced its imports of egg products by 42%. This situation coupled with an aggressive competition from the US has intensified competition in other markets.
- The Far East region as a whole is a net importer of egg products with some countries more dependent on imports than others.
- Up to 60% of imported egg products are dried egg products.
- Consumer demand expanding steadily encouraging import growth as food-processing industry evolves.

Key Metrics:



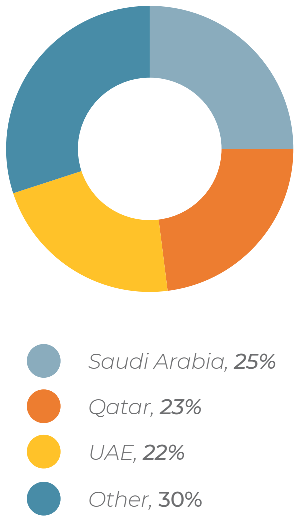
Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

KEY EGG PRODUCT IMPORTERS

MENA

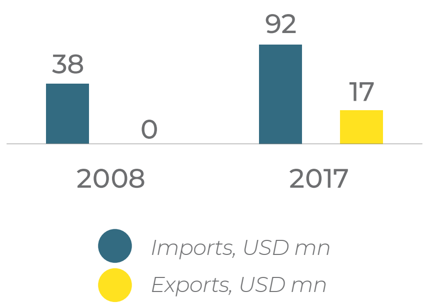
Share of global imports - 7 %

Key Importers in the Region, %:



- MENA has the highest dependency on imported egg products in the world.
- Egg processing as an industry begins to develop.
- Dry egg products take up nearly 50-60% of total egg product imports.
- Leading economies of the region represent its largest egg product importers.
- A military conflict and unstable political situation in 2015-2016 negatively affected imports to the region. However, in 2017 the geopolitical situation in the region started to gradually stabilise.

Key Metrics:

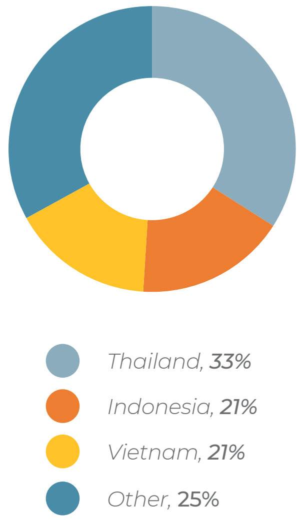


Source: WTO/UNCTAD International Trade Centre, Pro-Consulting

South East Asia

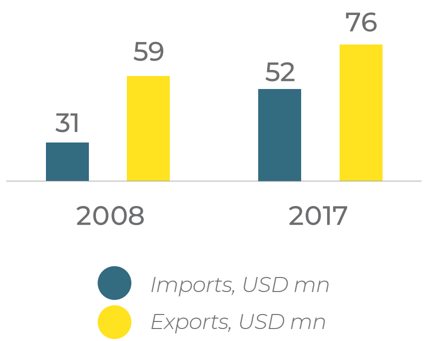
Share of global imports - 4 %

Key Importers in the Region, %:



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

Key Metrics:



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

MISSION, STRATEGIC VISION, GOALS

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

Avangardco IPL focus areas are:

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

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

Our Goals:

Increase Production Efficiency

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

Diversify Sales to Maximise Profits

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

Focus Efforts on Increasing Export of Eggs and Dry Egg Products

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

Maintain High Product Quality

- Avangardco has introduced modern technologies at its production facilities in order to maintain high product quality. At the same time, vertical integration implies that we can exercise strict quality controls at all stages of production.
- Continue to adhere to the relevant Ukrainian and international quality standards and requirements, including ISO 9001:2015, ISO 22000:2005, FSSC 22000, which are based on the key best practice international norms and principles for food quality standards set for food producers, including HACCP and GMP

Implement International Best Practices

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

OPERATIONS REVIEW

Shell Eggs Segment. Key Operational Figures:

	Units	2016	2017	Change
Total Production	Units (mn)	2,496	2,399	(4%)
Processing	Units (mn)	1,039	542	(48%)
Sales	Units (mn)	1,515	1,869	23%
Export	Units (mn)	252	558	121%
Average Sales Price	UAH (excl. VAT)	1.35	1.17	(13%)
Average Sales Price	USD (excl. VAT)	0.053	0.044	(17%)

Operations: Flock Size & Output

Flock Size Drops Temporarily due to Flock Renewal and Introduction of a New Breed

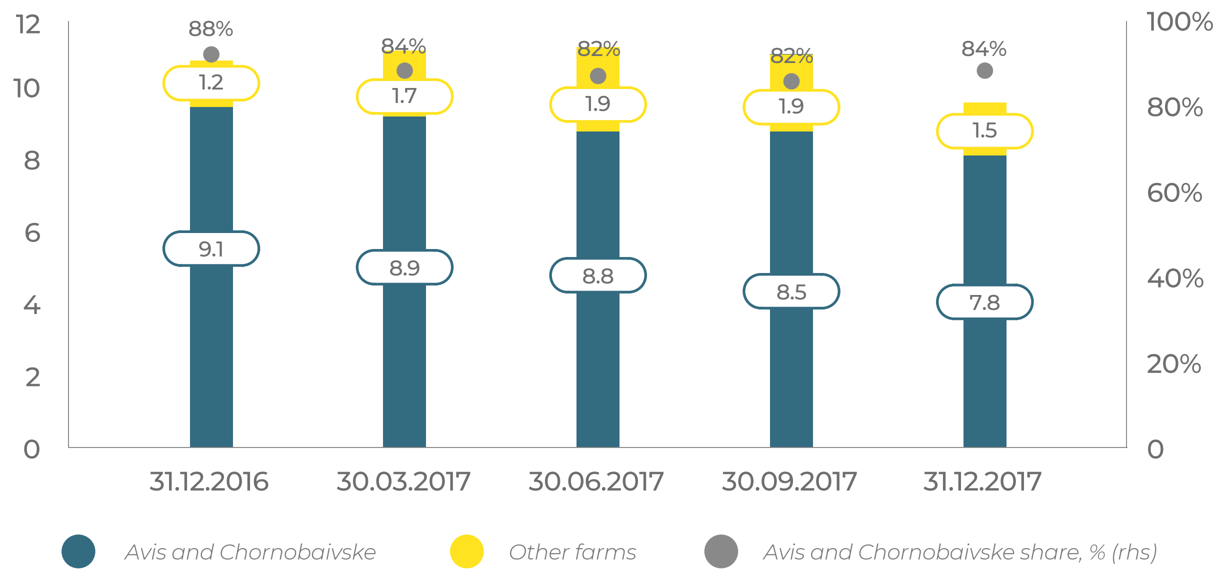
As at 31 December 2017, the company's total flock dropped by 30% YoY to 9.5 mn hens but only temporarily due to flock renewal that Avangardco IPL conducted throughout H1 2017. As at 31 December 2017, the number of laying hens decreased to 9.3 mn.

There was another factor that contributed to the temporary reduction in the company's total flock. Towards the end of the year, the company decided to introduce a new breed, which it will be trying out during 2018.

If the new breed meets the company's expectations in terms of productivity, flock survival and other key performance characteristics, it will be added to its portfolio.

Avangardco's laying flock continues to be predominantly concentrated at its two largest farms, Avis and Chornobaivske, that combine excellent productivity characteristics with the company's most cost-effective production methods.

Laying Flock, mn hens



Production Declines Insignificantly as a Consequence of Flock Replacement

Flock replacements temporarily reduce total production because young layers take time to reach full productivity and peak lay is reached at about 30 weeks of age[1]. In 2017, production dropped by 4% over the year before to 2,399 mn shell eggs.

The good news is that this technical reduction appears to have been the only reason why production fell in 2017. Between 2014 and 2016, production was dropping persistently due to a reduction in laying flock induced by a severe demand contraction, which started to ease during 2017. If the current trend in demand continues we should expect production to return to growth in 2018, as did company sales in 2017.

Processing Volume Reduced to Avoid Overproduction of Egg Products

Egg processing volume was reduced by 48% YoY to 542 mn eggs to avoid overproduction in the face of toughening competition in the global market for egg products. Avangardco IPL has been through similar situations before but this time around the company was smart enough to cut production proactively to avoid a build-up of egg powder inventories that have proved difficult to offload in the past.

[1] Depending on cross and type of poultry.

Operations: Sales of Shell Eggs

Sales Return to Growth After 4 Years of Decline

For the first time since 2013, company sales returned to growth. Compared to the freefall trajectory that they took between 2014-2016, growth of 23% YoY to 1,869 mn eggs in 2017 is not just impressive, it is inspiring!

And it's not that all the pressures presented by the current crisis have let go. They haven't. It's just that at least some of the roadblocks on the company's path to recovery have been removed. There's more to that though. Sales have not just resumed growing. Their composition has evolved and matured in that the most lucrative and secure sales channels have dramatically increased their share. This may not seem like much but it paves the way to a more sustainable sales pattern, one strongly relying on two major sales channels being home sales through supermarket chains and exports.

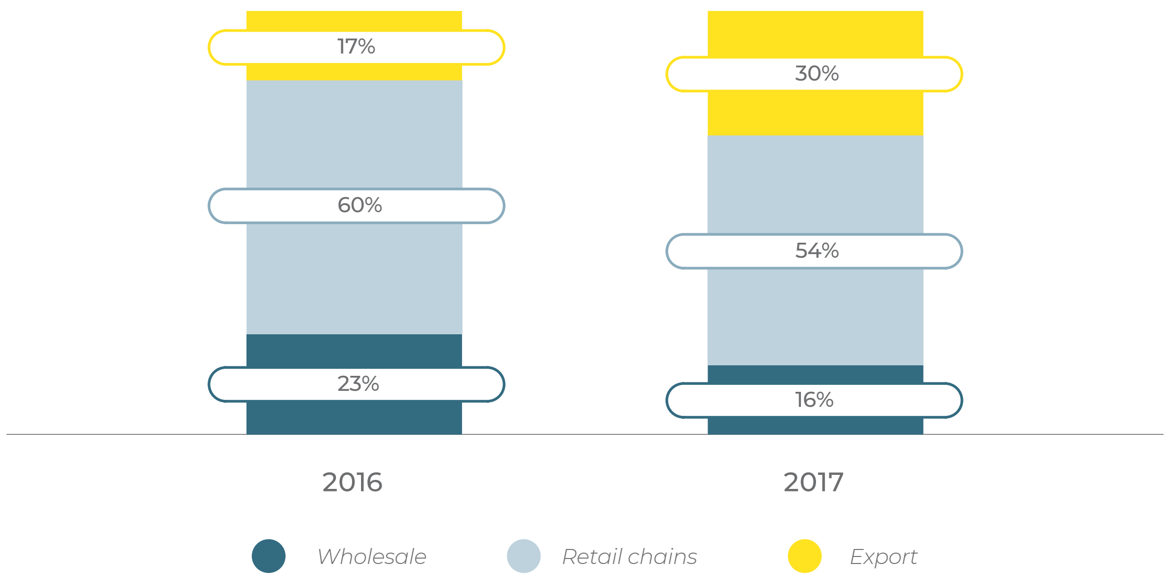
Sales Composition Improves with Home Sales through Retail Chains and Exports Leading Growth

Despite all the turbulences and challenges of the past two years, sales are back on the rise, mainly fuelled by domestic sales through supermarket chains and exports.

Avangardco IPL has always striven to increase exports and home sales through supermarkets, crisis or no crisis. Both channels are more secure and profitable than the rest. The current crisis only acted as a catalyst. Retail chains offer a more sustainable business model for the company while exports generate the badly needed foreign currency revenues.

At the same time, the traditional sales channel involving middlemen, aka wholesalers, was reduced during 2017 to an all-time low of 16% of total sales, down from 23% the year before giving up more market space to the more reliable and profitable sales channel being retail chains.

Shell Egg Sales Profile by Volume, %



New Retail Brands Help Gain Space on Supermarket Shelves

Much of the company's success in growing sales through retail chains comes from the continuing expansion of sales of Avangardco's retail brands under the Kvochka umbrella brand.

In January 2018, Avangardco IPL further expanded the Kvochka family of retail egg brands by introducing Kvochka XL. Kvochka XL is a premium brand for the top category of eggs each weighing 73 grams. The new sub-brand targets the most demanding customers.

To promote Kvochka sales, Avangardco IPL embarked on a massive TV advertising campaign aimed at raising customers' awareness of the premium quality that the company's name stands for.

Shell Egg Exports More Than Double as Importers Lift Trade Bans and New Markets Open Up

In 2017, shell egg exports more than doubled and reached 558 mn eggs due to several favourable developments:

- Avangardco IPL dramatically expanded its export geographies increasing the total number of country markets from 7 in 2016 to 20 in 2017.
- Most trade bans imposed earlier by many countries importing shell eggs from Ukraine had been lifted by Q3 2017.
- EU exports dropped over the Fipronil scandal.

Top 5 markets for exporting shell eggs are Iraq, the UAE, Moldova, Turkey and Libya.

Concentration Profile of Shell Egg Export Markets Improves as Share of Iraq Drops by Half

In 2017, Avangardco IPL was selling shell eggs to 20 country markets in the Middle East and North Africa (MENA), Sub-Saharan Africa, Asia, South Pacific and CIS.

The company added several new country markets, such as the Maldives, Central African Republic and Somalia.

Avangardco IPL managed to substantially reduce the share of MENA as a percentage of total shell egg export volume. The share of sales to Iraq alone dropped by half, from 66% in 2016 to 35% in 2017. We mainly achieved that by increasing sales to Sub-Saharan Africa (SSA) and CIS. Specifically, the share of shell egg sales to SSA rose from 0.9% in 2016 to 7.4% in 2017, the share of CIS (Azerbaijan and Moldova) increased from 8.7% in 2016 to 11.4% in 2017.

Decreasing concentration on MENA and specifically Iraq is part of an overarching risk mitigation aimed at reducing exposure to markets associated with high risk. In the case of MENA, it is the risk of loss of sales and disruption of logistics from the ongoing conflict and unrest in the region. The good news is that the company has been able to make up for reduced sales to MENA by increasing trade with other markets.

Operations: Sales of Egg Products

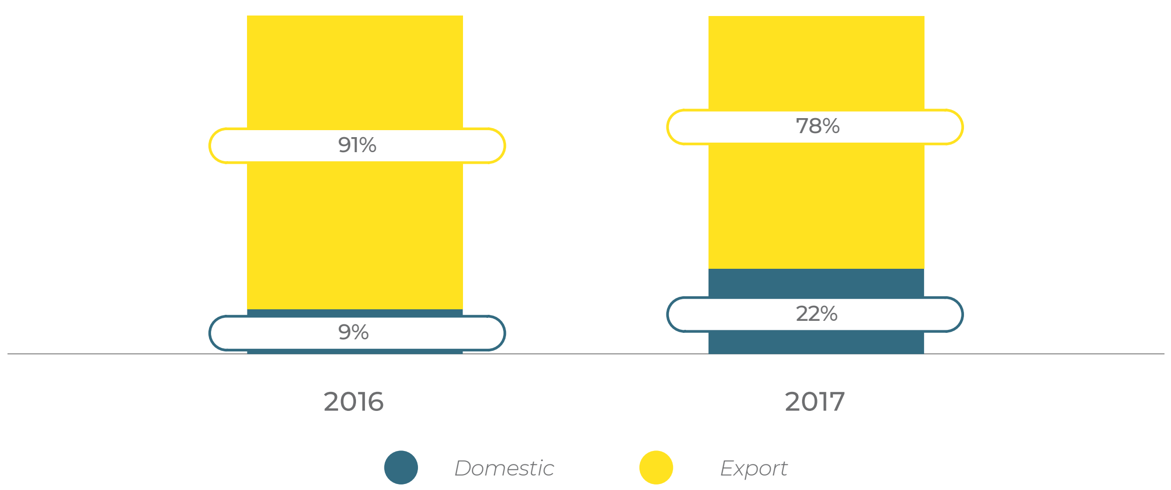
Dry Egg Product Segment: Key Operational Figures:

	Units	2016	2017	Change
Dry egg products production	Tonnes	12,219	6,368	(48%)
Sales volume	Tonnes	9,028	3,264	(64%)
Export	Tonnes	8,249	2,561	(69%)
Average Sales Price	USD/Kg	5.57	4.30	(23%)

Sales Decline as Global Competition Toughens

Sales of egg products dropped by 64% YoY to 3,264 tonnes due to adverse developments in the world market affecting company exports of egg products. Domestic sales of egg products declined by 10% YoY. Their share of the total increased, however. But that was mainly because exports fell by as much as 69% YoY to 2,561 tonnes.

Egg Product Sales Profile by Volume, %



The decline in the export of dry egg products resulted from:

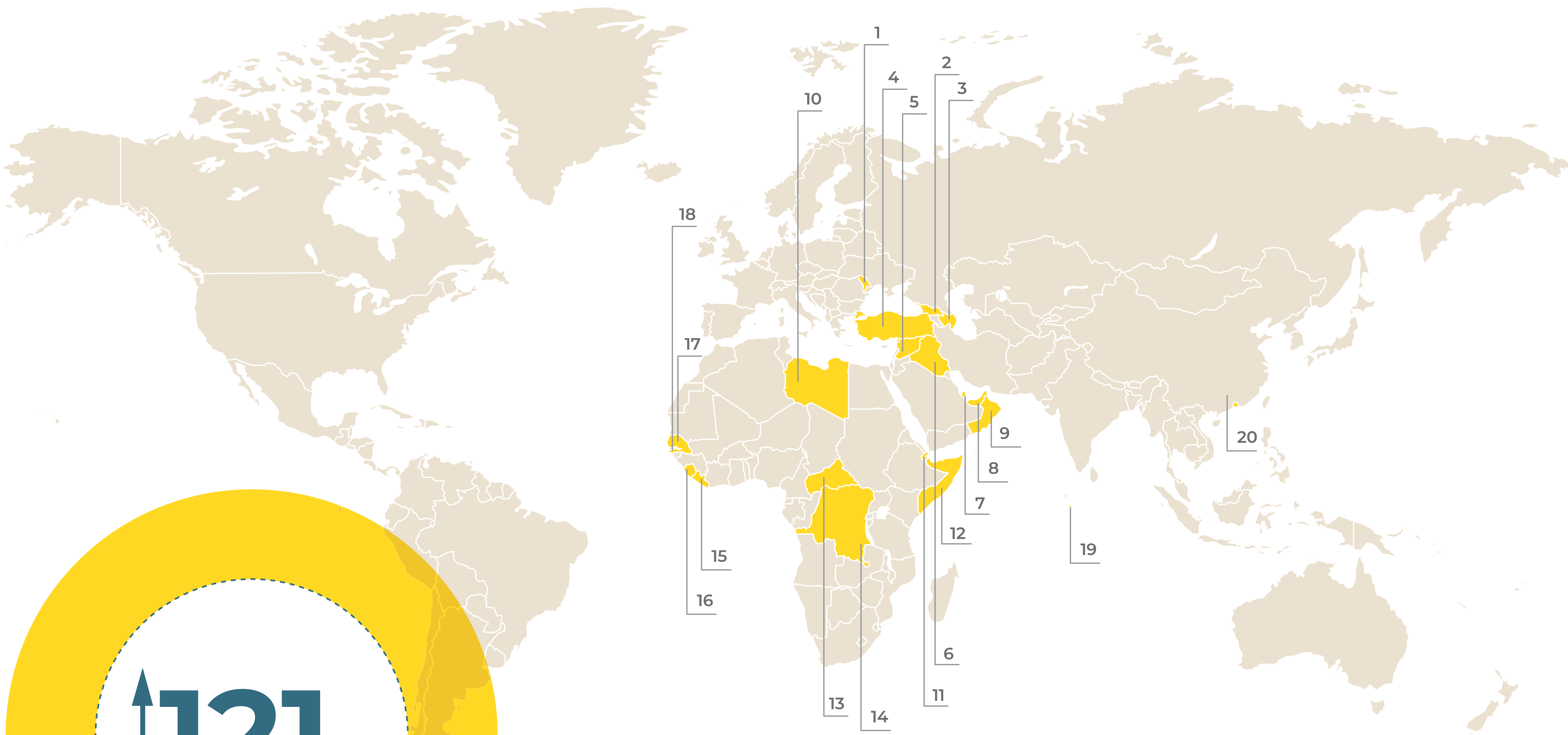
- A lack of sales to Denmark in Q2 and Q3 2017 due to the fact that mutually beneficial sales terms could not be agreed at that time. However, in Q4 2017, the company restored its sales to Denmark;
- A decline in sales to the MENA countries, as a consequence of an import trade ban. It will take some time for the company to reclaim its position in the region;
- Strong competition from the US competitors in the EU and Far East markets, which are the company's key exports markets.

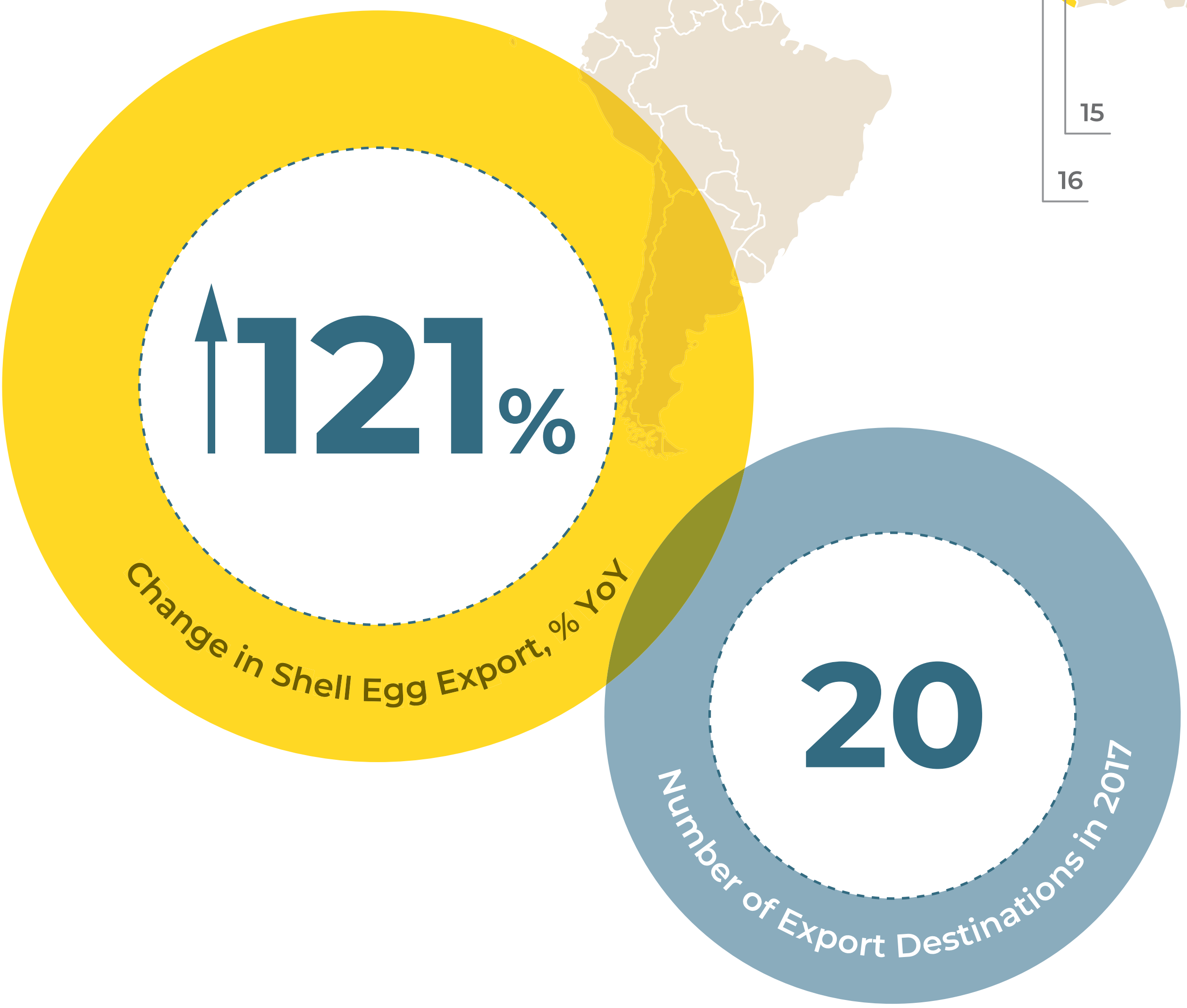
In the reporting period, the company sold egg products to 22 countries in the EU, MENA, Asia, the Far East and the CIS. Avangardco continues to grow sales of its dry egg products to the EU, selling them to Denmark and Italy and entering a new market of Hungary.

Top 5 markets for exporting egg products continue to be Denmark, Pakistan, Thailand, Indonesia and Egypt.

EXPORT DESTINATIONS

Avangardco's Shell Egg Export Destinations in 2017



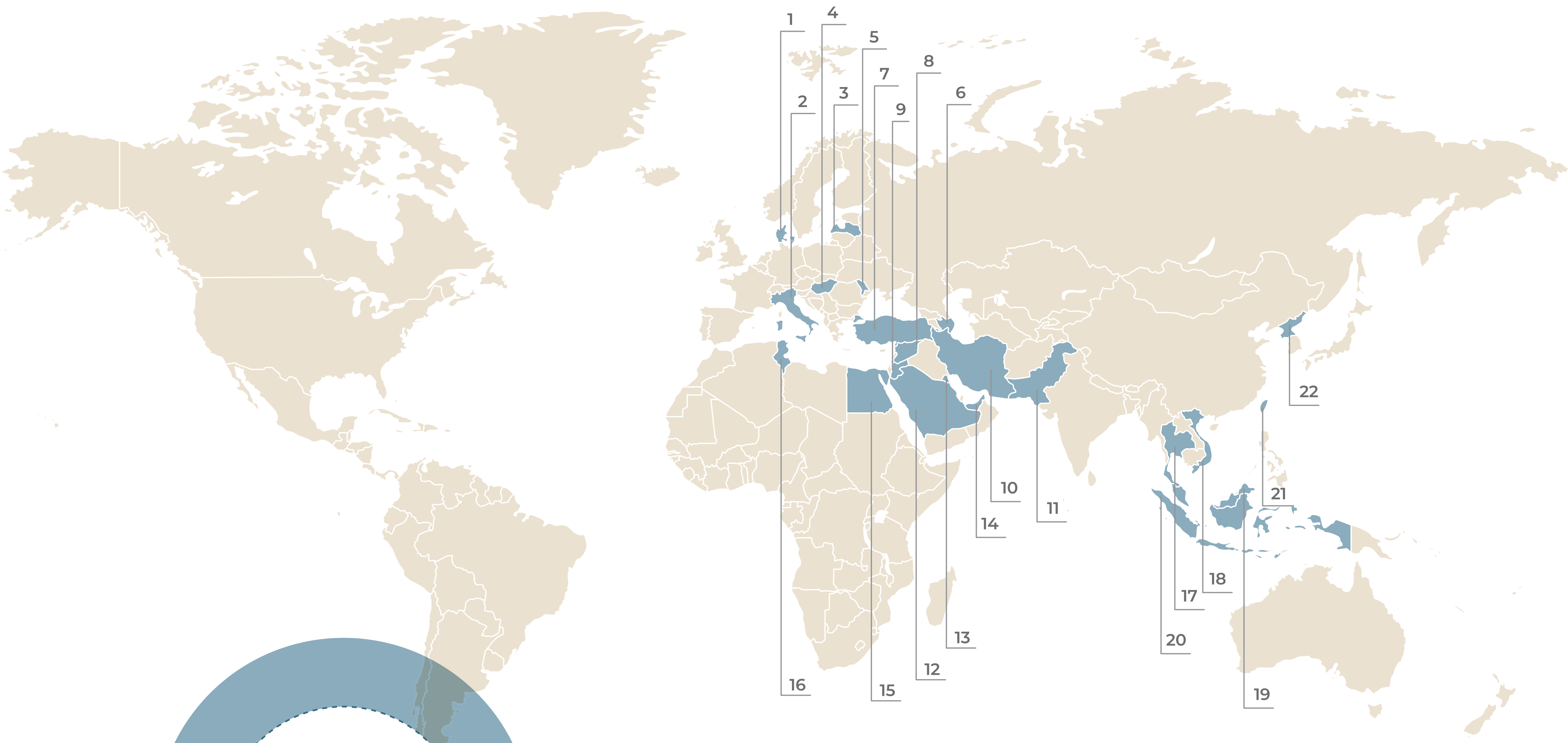


Shell Egg Export Destinations in 2017:

1 Moldova
2 Georgia
3 Azerbaijan
4 Turkey
5 Syria
6 Iraq
7 Qatar
8 UAE
9 Oman
10 Libya
11 Djibouti
12 The Federal Republic of Somalia
13 The Central African Republic
14 The Republic of the Congo
15 Liberia
16 Sierra Leone
17 Guinea Bissau
18 Gambia
19 The Republic of Maldives
20 Hong Kong

EXPORT DESTINATIONS

Avangardco's Dry Egg Product Export Destinations in 2017



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Number of Export Destinations in 2017

Dry Egg Product Export Destinations in 2017:

1 Denmark
2 Italy
3 Latvia
4 Hungary
5 Moldova
6 Azerbaijan
7 Turkey
8 Syria
9 Jordan
10 Iran
11 Pakistan
12 Saudi Arabia
13 Kuwait
14 UAE
15 Egypt
16 Tunisia
17 Thailand
18 Vietnam
19 Malaysia
20 Indonesia
21 Taiwan
22 Korea

FINANCIAL REVIEW

Key Financial Highlights

	Units	2016	2017	Change
Consolidated Revenue	USD '000	191,304	**127,887**	(33%)
Gross Profit/(Loss)	USD'000	13,197	**(10,137)**	-
Gross Profit Margin	%	7%	**-**	-
Operating Profit/(Loss)	USD'000	(14,880)	**(3,792)**	-
Operating Profit Margin	%	-	**-**	-
EBITDA	USD'000	1,486	**11,757**	› 100%
EBITDA Margin	%	1%	**9%**	8 p.p.
Net Profit/ (Loss)	USD'000	(56,636)	**(7,469)**	-
Net Profit Margin	%	-	**-**	-

In 2016 and 2017, the company was engaged in trading grain purchased from an affiliate of Ukrlandfarming PLC at market rates. This was reflected in the 'Other activities' segment. Since these operations are of a technical nature and have a minimum margin, they do not affect AVANGARDCO's operational and net profit.

Financials Excluding Grain Trading Operations

	Units	Grain trading in 2016	Consolidated financials excluding grain trading in 2016	Grain trading in 2017	Consolidated financials excluding grain trading in 2017	Change excluding grain trading
Consolidated Revenue	USD'000	50,168	141,136	9,772	**118,115**	(16%)
Cost of sales	USD'000	(47,847)	(128,028)	(9,626)	**(125,291)**	(2%)
Gross Profit/(Loss)	USD'000	2,321	10,876	147	**(10,284)**	-
Gross Profit Margin	%	5%	8%	2%	**-**	-
Distribution expenses	USD'000	(2,470)	(6,088)	(381)	**(7,365)**	21%
Operating Loss	USD'000	(149)	(14,731)	(234)	**(3,558)**	-
EBITDA	USD '000	-	1,635	-	**11,991**	› 100%
EBITDA Margin	%	-	1%	-	**10%**	9 p.p.
Net Loss	USD'000	-	(56,487)	-	**(7,234)**	-

SALES AND PROFITABILITY

Aggregate Sales Revenues Decline Despite a 23%YoY Increase in Shell Egg Sales in Volume Terms and Doubling of Exports

In 2017, the Company's consolidated revenue, excluding grain trading operations, decreased by 16% YoY to USD 118.1 mn.

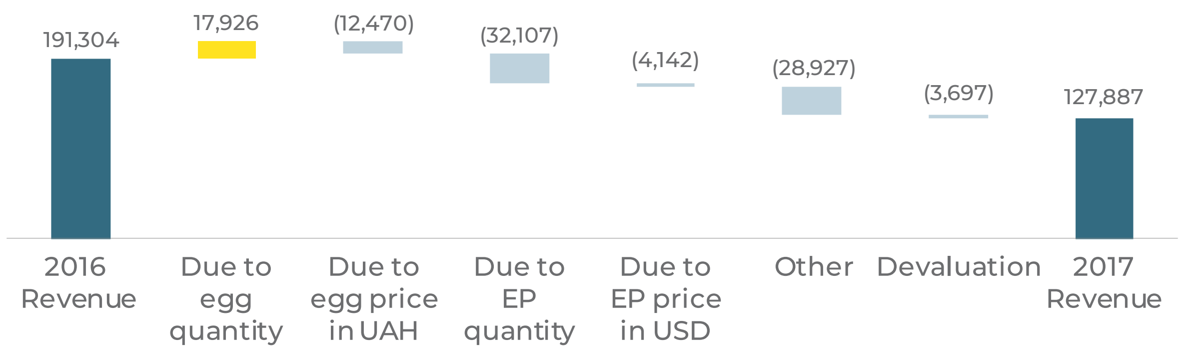
2017 ushered in a very welcome return to growth of the company's shell egg sales. They rose by 23% YoY as measured by the quantity of shell eggs sold (1,869 mn eggs in 2017 vs. 1,515 mn in 2016). Suffice it to say that sales got back on a growth track for the first time since 2013.

On the export front, sales performance was even more impressive with export sales shooting up by 121% YoY (from 252 mn eggs in 2016 to 558 mn in 2017) in volume terms. Exports rebounded as most importing countries lifted the trade bans they had imposed earlier over outbreaks of avian influenza in Ukraine. Avangardco IPL was not affected by those outbreaks due to its solid biosecurity defences but it suffered from the bans all the same because most of them were national bans and only some – regional. Other contributing factors helping boost exports included a considerably increase in the number of country markets (20 in 2017 vs. 7 in 2016) and reduced dependency on exports to the Middle East and North Africa (MENA), Iraq in particular.

Those achievements, however, failed to offset the many and serious challenges that faced the company during 2017:

- The pressure on domestic shell egg prices coming from depressed exports coupled with the seasonal glut in the home market caused by increased household production was just too heavy to prevent a contraction in sales revenue despite volume growth;
- Sales of egg products fell by 64% YoY and their average sales price fell by 23% YoY as competition toughened in the global egg-powder market due to aggressive price undercutting by US producers;
- Decline in revenue from the "Other activities" segment due to a reduction in grain trading operations;
- Further devaluation by 4% YoY[1] of Ukraine's national currency resulted in a negative translation difference.

Revenue Bridge, USD th



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

Shell Egg Prices Sink Below Cost Resulting in Negative Gross Profit for 3 Consecutive Quarters

In 2017, the company's gross loss, excluding grain trading operations, amounted to USD 10.3 mn as a result of negative margins in the key Shell Egg and Dry Egg Product segments.

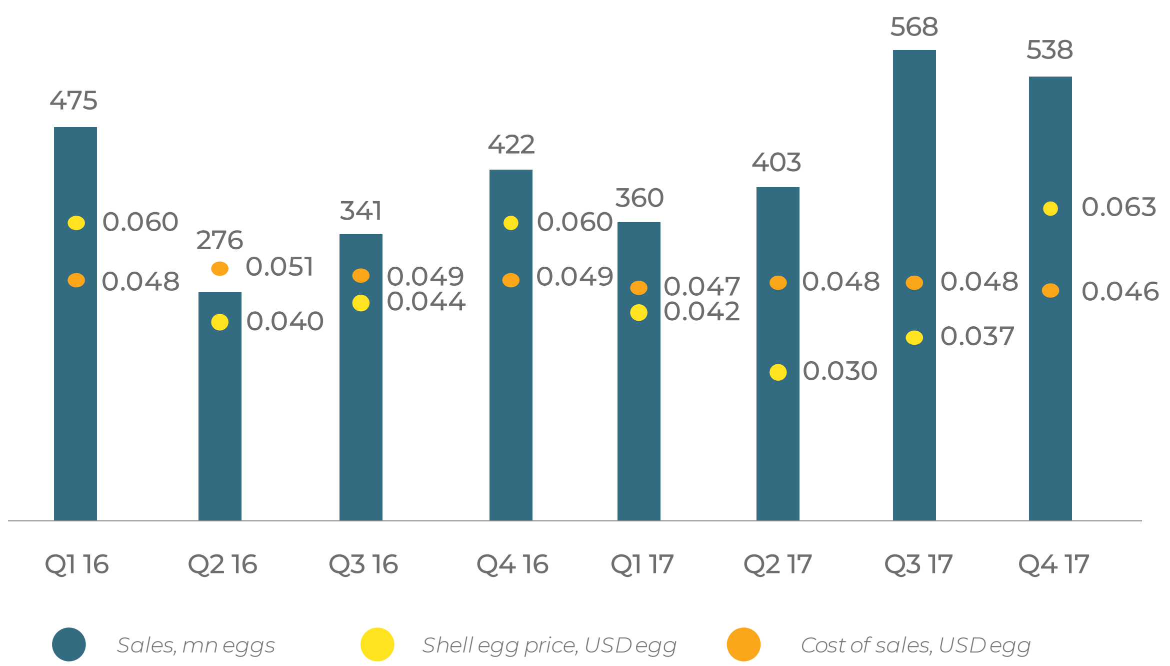
The pressure on domestic shell egg prices during 2017 was not only very heavy but also protracted. In the first quarter of the year import bans trapped a substantial volume of shell eggs in Ukraine's home market crushing the price, a situation that went from bad to worse during the subsequent two quarters when the usual seasonal glut caused by egg-producing households forced prices to sink ever lower. As a result in 2017 the company's average shell egg sales price fell 13% YoY to UAH 1.17 per egg.

Things turned around in Q4 and the quarterly performance was, for lack of a better word, spectacular. There was growth and improvement across the board.

Excellent performance in Q4 2017 unfortunately failed to make up for the heavy losses sustained by the company during the first three quarters of the year in sales and profit. We only hope we won't have to relive in 2018 the painful shocks we experienced during 2017.

In 2017, the average sales price for dry egg products also fell by 23% YoY to USD 4.30 per kg due to the reduction in the share of export sales, and the fact that, import restrictions and stronger competition in the company's export markets forced it to sell dry egg products at lower prices.

Shell Egg Sales Price and Cost of Sales Dynamics



Further Cost Savings Achieved through Stricter Cost Controls as Productivity Rises

In 2017, the cost of sales, excluding grain trading operations, fell by 2% YoY to USD 125.3 mn due to the devaluation of the Ukrainian hryvnia against the US Dollar and the company's strong focus on cost management.

During 2017, the company continued to pursue its cost reduction policy yielding total savings of 4% in cost of shell egg sales in US dollar terms over the year before, a small yet important win amid all the challenges that the year presented.

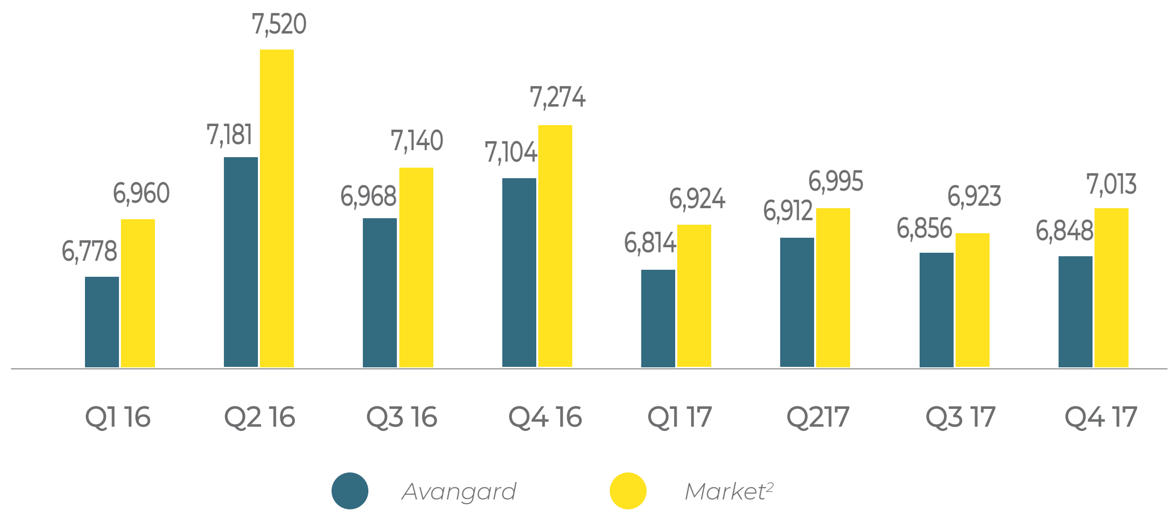
Those economies largely resulted from stricter cost controls and further devaluation of Ukraine's currency, which this time played a positive role. Another factor promising cost savings in the future is productivity gains expected from the 2017 flock renewal.

Cost per kg of egg products in US dollar terms fell 5% YoY dependent on cost per egg used for processing.

Cost of Sales of Shell Egg by Component, UAH per egg

	Q3 2017	Q4 2017	%
Feed[1]	0.833	0.832	0%
Grain	*0.194*	*0.210*	*8%*
Oils	*0.489*	*0.496*	*1%*
Other ingredients	*0.150*	*0.125*	*(17%)*
Labor	0.081	0.082	1%
Depreciation	0.065	0.065	0%
Packing, veterinary medicines	0.125	0.123	(2%)
Other	0.137	0.138	1%
TOTAL	1.240	1.240	0%

Average Animal Feed Price, UAH Per Tonne



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

Export revenue

In 2017, export revenue from the sales of shell eggs and dry egg products fell by 45% YoY to USD 36.7 mn, or 29% of consolidated revenue. This was due to the decline in export sales of dry egg products and the lower export price for both shell eggs and egg products.

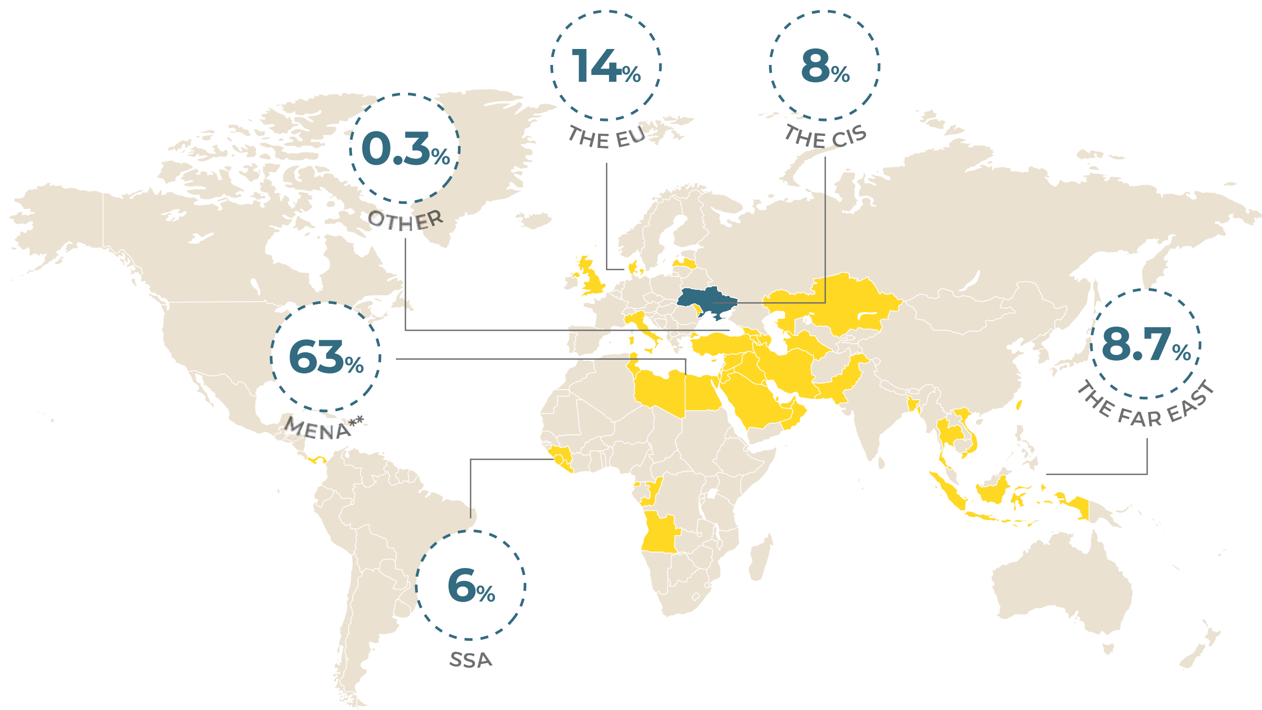
Shell eggs:

- Export of shell eggs rose 121% YoY due to greater diversification and increased sales to all export market;
- In the reporting period, the Company sold shell eggs to 20 countries in the MENA region, Sub-Saharan Africa, Asia and the CIS. Among them were new export markets of the Maldives, Central African Republic and Somalia;
- Top 5 markets for exporting shell eggs are Iraq, the UAE, Moldova, Turkey and Libya.

Dry egg products:

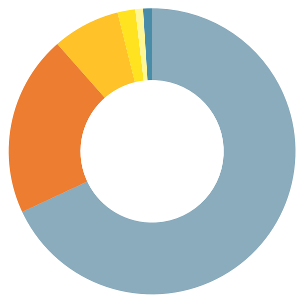
- 69% YoY decline in the export of dry egg products resulted from:
  - A lack of sales to Denmark in Q2 and Q3 2017 due to the fact that mutually beneficial sales terms could not be a greed at that time. However, in Q4 2017, the company restored its sales to Denmark;
  - A decline in sales to the MENA countries, as a consequence of the import trade ban. It will take some time for the company to reclaim its position in the region;
  - Strong competition from the US competitors in the EU and Far East markets, which are the company's key exports markets.
- In the reporting period, the company sold egg products to 22 countries in the EU, MENA, Asia, the Far East and the CIS;
- AvangardCo continues to grow sales of its dry egg products to the EU, selling them to Denmark and Italy and entering a new market, Hungary;
- Top 5 markets for exporting egg products continue to be Denmark, Pakistan, Thailand, Indonesia and Egypt.

2017 Export by Region, % of Shell Egg and Egg Product Export Revenue



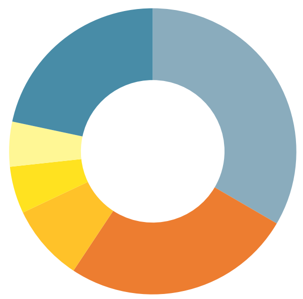
Top-5 Egg Export Markets, % of Egg Export Revenue

2016:



- Iraq, 68%
- UAE, 20%
- Moldova,8%
- Syria, 2%
- Turkey, 1%
- Other, 1%

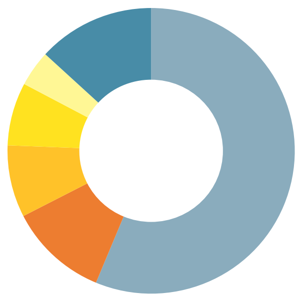
2017:



- Iraq, 33%
- UAE, 26%
- Moldova, 8.7%
- Turkey, 5.3%
- Libya, 5%
- Other, 22%

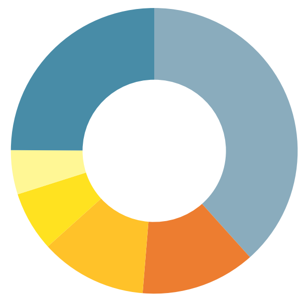
Top-5 Egg Product Export Markets, % of Egg Product Export Revenue

2016:



- *Denmark*, 55%
- *Jordan*, 11%
- *Pakistan*, 8%
- *Indonesia*, 7%
- *Thailand*, 4%
- *Other*, 15%

2017:

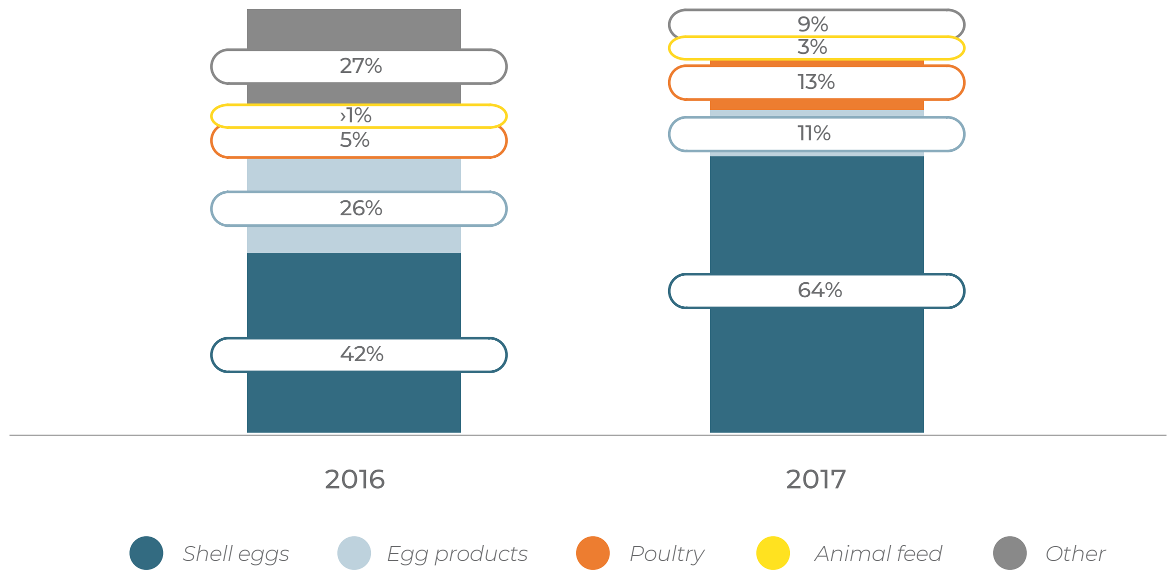


- *Denmark*, 38%
- *Pakistan*, 13%
- *Thailand*, 12%
- *Indonesia*, 7%
- *Egypt*, 5%
- *Other*, 25%

Key Segment Results

USD'000 (unless otherwise stated)	Shell eggs 2016	Shell eggs 2017	%	Egg products 2016	Egg products 2017	%
REVENUE	79,782	82,125	3%	50,291	14,042	(72%)
Export, % of sales	24%	30%	6 p.p.	95%	88%	(7 p.p.)
Revenue, % of total sales	42%	64%	22 p.p.	26%	11%	(15 p.p.)
GROSS PROFIT/(LOSS)	1,231	(3,701)	-	8,933	(97)	-
Gross profit margin, %	2%	-	-	18%	-	-
OPERATING PROFIT/(LOSS)	(12,317)	6,783	-	(1,630)	2,426	-
Operating profit margin, %	-	8%	-	-	17%	-
NET PROFIT/(LOSS)	(12,216)	6,970	-	(3,414)	914	-
Net profit margin, %	-	8%	-	-	7%	-

Key Segment Results, % of Revenue



In 2017, sales of shell eggs and egg products generated 75% of consolidated revenue.

Shell Egg segment:

- Shell egg segment's revenue increased by 3% YoY to USD 82.1 mn as a result of increased sales in both domestic and export markets.
- The segment posted a gross loss USD 3.7 mn as the average sales price of shell eggs was lower than the cost of sales.
- The segment's profit amounted to USD 7.0 mn due to additional income from government grants and incentives of USD 19.2 mn, which was allocated to this Segment.

Dry Egg Product segment:

- The segment's revenue was down by 72% YoY to USD 14.0 mn due to a reduction in sales of dry egg products and a lower sales price.
- The segment made gross loss USD 0.1 mn as the average sales price of 1 kg of egg product was lower than the cost of sales.
- The segment's profit amounted to USD 0.9 mn and was attributed to a decline in provisions for trade accounts receivable and a decrease in forex losses.

Poultry Segment

- The segment's revenue rose by 95% YoY to USD 17.0 mn due to the increased sales of poultry for slaughter as a result of the laying flock replenishment.

Animal Feed Segment

- The segment's revenue rose to USD 3.5 mn.

Other Activities Segment:

- In 2016 and Q1-Q2 2017, the company was engaged in trading grain purchased from an affiliate of Ukrlandfarming PLC at market rates. Since these operations are of a technical nature and have a minimum margin, they do not affect AvangardCo's operational and net profit.

EBITDA

EBITDA OF USD 11.8 mn RESULTED FROM:

Negative influence:

- 33% YoY decrease in consolidated revenue;
- Loss from revaluation of biological assets;
- 2% YoY decline in SG&A expenses.

Positive influence:

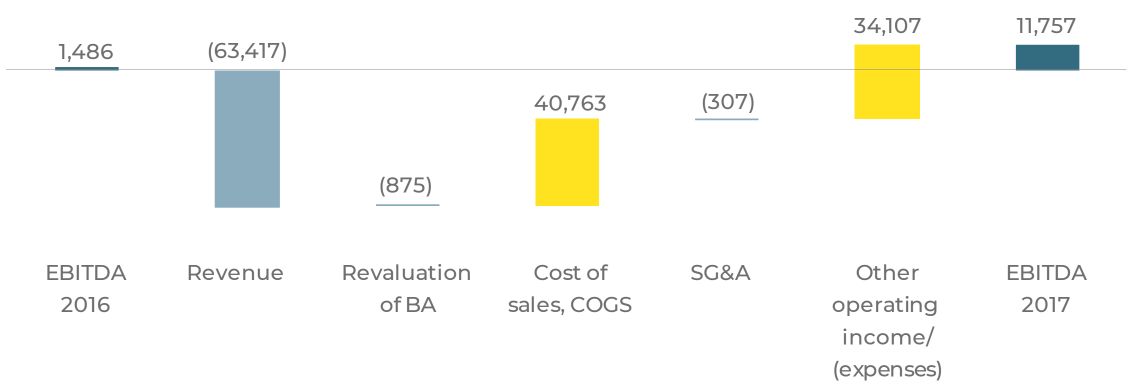
- 23% YoY decrease in cost of sales due to a reduction in grain trading operations, devaluation of the Ukrainian hryvnia against the US dollar and a strict cost controls;
- Other operating income improved mainly through additional income from government grants and incentives of USD 19.2 mn and the USD 4.5 mn of bad debt recovered.

Operating Loss and Net Loss

In 2017, the loss from operating activities, excluding grain trading operations, decreased to USD 3.6 mn. In the reporting period, the company received additional income from government grants and incentives amounting to USD 19.2 mn, which had a positive impact on the company's financial results.

In 2017, the company's net loss, excluding grain trading operations, reduced to USD 7.2 mn. This was partially due to forex gains of USD 24.7 mn largely from retranslation of long-term bond liabilities.

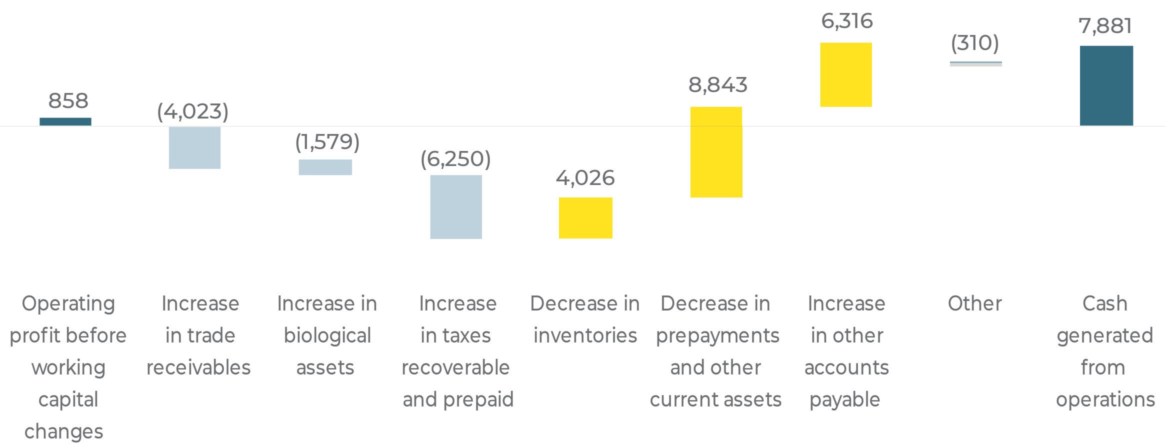
EBITDA Bridge, USD th



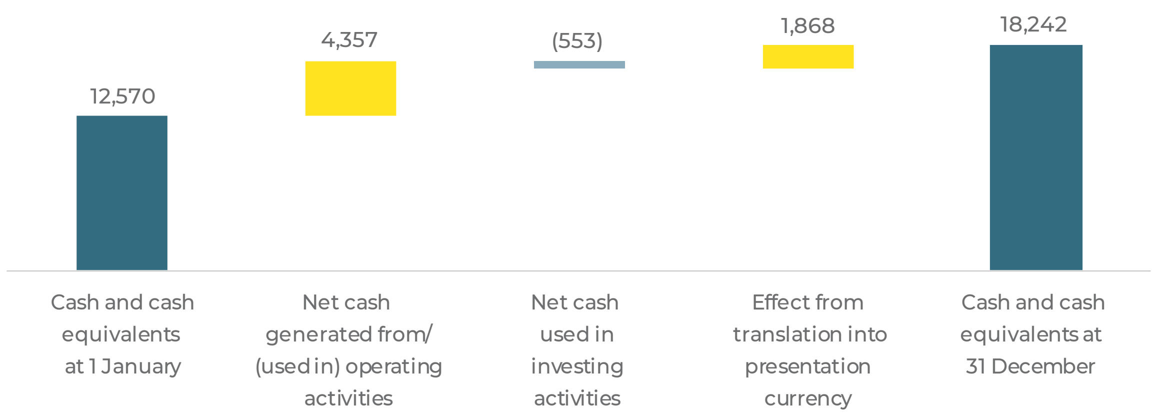
Working Capital and Cash Flow

- Working capital improved due to the decrease in prepayments and other current assets, decrease in inventories and increase in other accounts payables.
- Cash generated from operations was USD 7.9 mn.
- Net cash inflow from operating activities was USD 4.4 mn.
- Net cash outflow from investing activities was USD 0.6 mn.
- In the reporting period, there was no cash used/generated from financing activities.
- Net cash inflow amounted to USD 3.8 mn and was due to the inflow of funds from operating activities, a substantial decrease in maintenance capex and the absence of financing activities in the reporting period.
- As at 31 December 2017, cash and cash equivalents amounted to USD 18.2 mn.

Operating Profit Before NWC[1] to Net Cash from Operations Bridge, USD th



Cash Flow, USD th



[1] Net working capital

Debt Structure

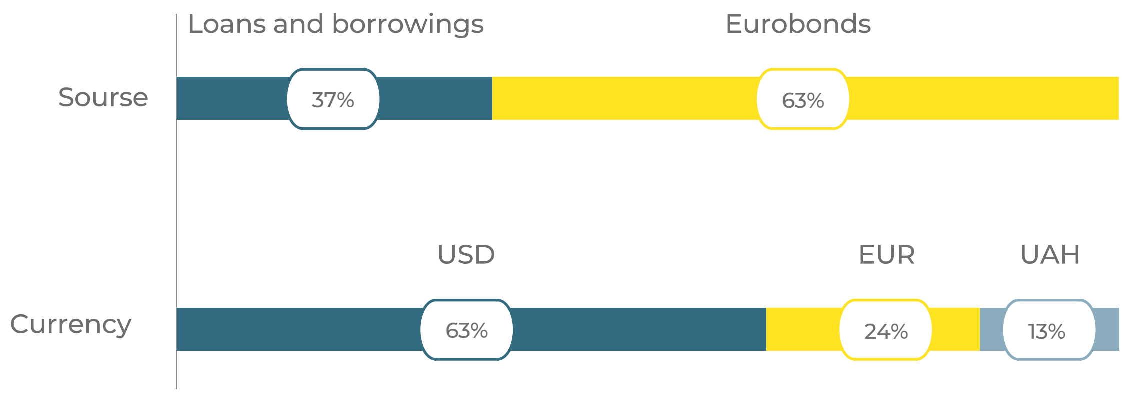
Total debt rose to USD 366.0 mn as a result of PIK payment accumulation.

- Net debt was USD 347.8 mn.
- The debt portfolio mainly consists of a Eurobond that represents 63% of total debt.
- 87% of debt is USD and EUR denominated.
- Avangardco IPL continues to be engaged in discussions with various creditor groups. As part of these discussions, the company has begun working with an ad hoc committee of bondholders and its advisors on the proposal of Restructuring of its USD200,000,000 10.0% Notes due in 2018 (ISIN: XS0553088708). The company expects that any restructuring of the company's debt including the Notes will include a request to restructure the interest payment due under the Notes on 2 May and 30 October 2017. Further updates will be made as the Restructuring develops.

Debt Structure, USD th

	31.12.2016	30.09.2017	31.12.2017
TOTAL DEBT	344,076	365,076	**366,035**
Long-term loans	93,924	48,696	**42,750**
Current portion of long-term debt	31,135	87,309	**91,673**
Long-term finance lease (incl. VAT)	3	-	**-**
Bond liability	219,014	229,071	**231,612**
CASH AND CASH EQUIVALENTS	12,570	17,185	**18,242**
NET DEBT	331,506	347,891	**347,793**

Debt Structure as at the Period End, %



Loan Portfolio Servicing Schedule, USD mn[1]

[1] Excluding interest.

RISK MANAGEMENT

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

At the same, by 2017 most risks had already manifested themselves while organisations had largely thought of ways to adapt to the new and riskier environment or come up with strategies to mitigate their risk exposures.

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

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

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

Political and Country Risks

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

The company operates in Ukraine, therefore the company's assets and operational activities are subject to risk in case of unfavourable changes in the political and economic situation in the country. The political crisis that started in 2014 spilt over into 2015 and continued into 2016. Many of its manifestations took shape in 2017 and have continued in place until the present.

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

Market Risk: Manifestation and Mitigation

Market risk has hit us hard from all sides:

- Seasonal demand fluctuations have grown more extreme as households faced with income loss increasingly switch to producing eggs within the household during the warm months of the year when homebred hens lay eggs forcing the price below break-even for industrial producers. The 2017 price differential between July and December has been the largest in history (143% vs. a low of just 15% in 2013), which serves as strong evidence that decline in industrial egg production and increase in the collective market share of individual households harms the market as a whole;
- Sales have declined due to demand contraction from both foreign and domestic customers;
- Cost of production has inflated as the price of forage grain being a global exchange-traded commodity adjust for devaluation.

We have responded to it by:

- Downscaling operations to avoid overproduction;
- Increasing the share of exports to address oversupply in the home market;
- Reducing costs where possible, in part, by concentrating about 84% of laying hens at our highly efficient and cost-effective poultry complexes of Avis and Chornonaivske.

Operational Risk: Manifestation and Mitigation

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

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

Eggs are also perishable and must be stored in refrigerated conditions.

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

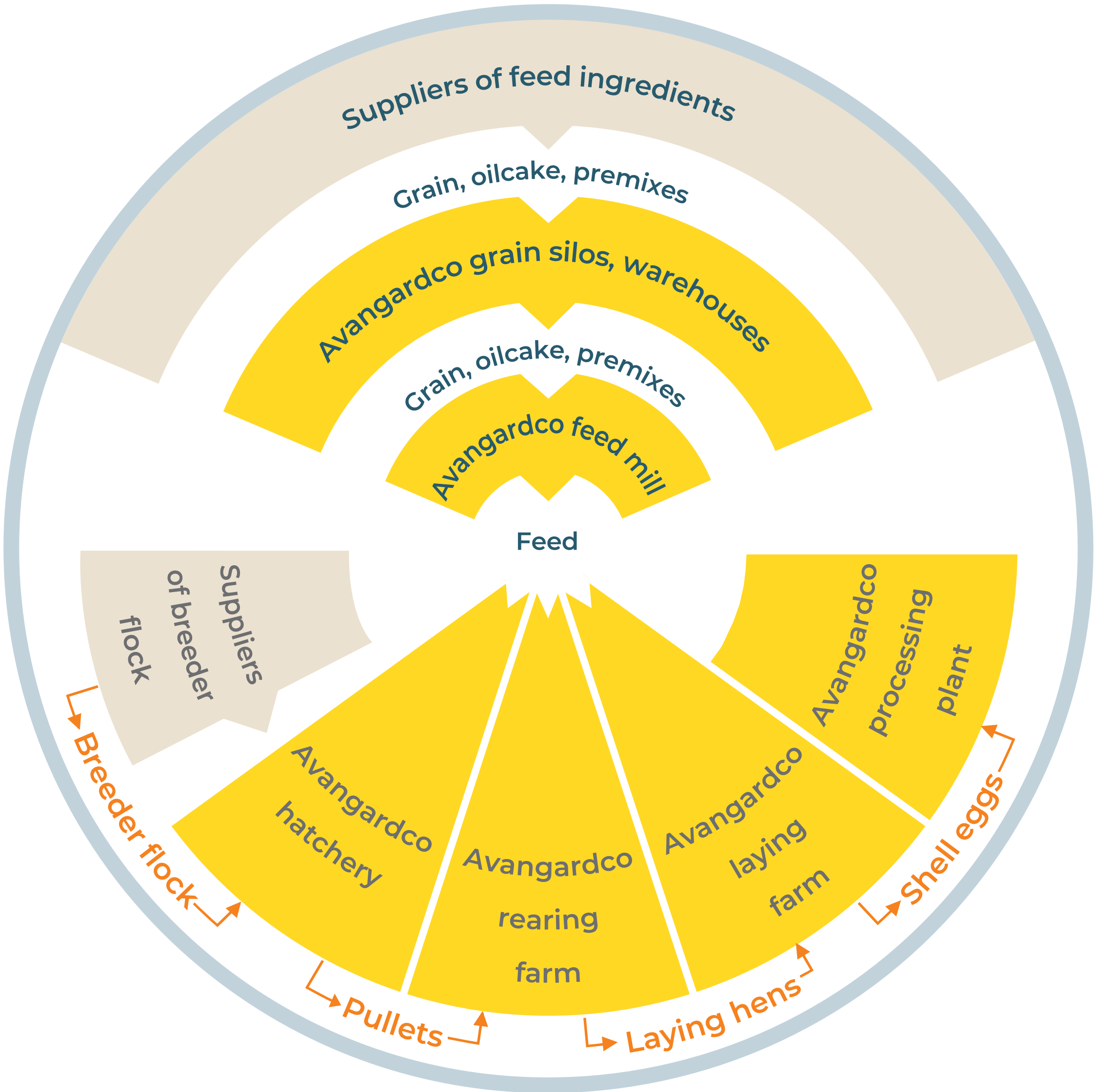
We strongly rely on our rigorous decontamination practices, regular flock vaccinations and other routine controls for protection against biological hazards by enforcing some of the world's most rigorous biosecurity standards both on our farms, at our hatcheries, feed mills and egg processing plant and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

Our biosecurity framework is very finely balanced and fine-tuned to run like clockwork. We know how to operate it in a stable and peaceful environment, we also know how to work it in critical situations.

But, unfortunately, when a military conflict erupts in your country, when company assets get raided or taken over by armed terrorists it becomes impossible to operate them, ensure seamless supply of inputs and execute rigorous bio-security controls. It is for this reason that we have had to shut down our assets both in the conflict zone and around it.

On top of protecting us from biological hazards our bio-security framework supports a very important characteristic of our quality management system certified to ISO 9001:2015, which is traceability. Traceability is highly valued by our customers, especially EU buyers of our dry egg products.

Avangardco's Traceability of Dry Egg Products



Our biosecurity defences were put to the real test in 2016 when outbreaks of avian influenza hit several regions of Ukraine including those where some of Avangardco's assets are located causing Ukraine's key importing countries to impose temporary bans on poultry imports from the affected regions of Ukraine or the whole country, including eggs. However, our solid biosecurity defences proved to be strong and none of our facilities was affected with avian influenza.

Financial Risk: Manifestation and Mitigation

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

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

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

Manifestations:

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

We have responded to those challenges by:

- Approaching our lenders, in the first place our Eurobond holders with restructuring proposals, which has secured us quite some breathing space in the face of debt- servicing payments and repayments inflated by the steep devaluation in local currency terms;
- Bringing our foreign-currency outlays to a minimum by reducing breeder flock purchasing as part of downscaling, cutting back on any foreign - currency-denominated expenditures and hoarding foreign currency proceeds from exports to naturally hedge our hard- currency obligations;
- As part of our debt restructuring, in 2015 we have renegotiated the terms of our USD 200 mn Eurobond, representing a lion's share of our aggregate debt position, pushing off its final maturity date to 2018 and agreeing on adding a Paid-in-Kind coupon to alleviate the pressure on the company's cash position;

Avangardco's Risk Management Matrix

Risk	Impact	Prevention or mitigation measures
POLITICAL RISK: ABILITY TO MITIGATE - LIMITED		
Loss of the country's territorial integrity	The loss of territories where Avangardco's assets are located may continue to force the company to suspend operations and close its farms, which could lead to significant material losses.	Suspend operations, evacuate movable assets.
Loss of assets	Unlawful seizure of private assets could cause material financial damage.	Pursue legal action and other avenues of asset recovery.
Risk of sovereign default	Sovereign default may limit Avangardco's ability to raise new debt.	Renegotiate debt maturities with lenders.
MARKET RISK: ABILITY TO MITIGATE - MEDIUM		
Seasonal demand fluctuations and egg production by households	Demand for eggs in Ukraine is subject to seasonal fluctuations. Households are active on the market in the spring and summer seasons; consequently, consumption of industrially produced eggs decreases during these periods. As eggs are a perishable product with a shelf life of up to 28 days, a drop in egg sales below production volume may cause losses.	Increase the share of shell egg output processed into egg powder, increase exports, use long-term egg storage facilities.
Decreasing demand for products and a decline in sales	Inability to sell eggs and egg products may lead to financial losses.	Downscale to match new demand level.
Cost increases	Feed prices are volatile; in Ukraine they depend on world market trends.	Reduce costs where possible, concentrate production at the most cost-effective enterprises, search for and lock in the best deals to buy inputs.
Counterparty risks	The instability of company contractors and key clients, including their inability to meet their contractual obligations in a timely manner, may lead to a decrease in sales volumes or financial losses and negatively impact future financial results.	In our case, the best mitigant against counterparty risk is our strategy to promote sales through Ukraine's top retail chains.
OPERATIONAL RISK: ABILITY TO MITIGATE - STRONG		
Disease outbreak among poultry population	Disease may cause material damage to the company's business.	In 2016, a series of outbreaks of bird flu hit Ukraine including regions where Avangardco IPL operates some of its assets. Our solid bio-security defences held out, and not a single one of our millions of birds was infected testifying to the strength of our bio-security safeguards.
Product contamination	In case of product contamination, the company may have to face product recalls and demands for compensation payments.	We work proactively to prevent any contamination from ever occurring.
FINANCIAL RISK: ABILITY TO MITIGATE - MEDIUM		
National currency devaluation	Devaluation of the Ukrainian hryvnia against other world currencies has a negative impact on the company's financial results in US dollar terms, and also increases the cost of servicing debts denominated in foreign currency.	Increase exports, convert FX-denominated debt to local currency where possible.
Interest rate changes	Possible fluctuations in the cost of financial instruments as a result of interest rate changes.	In order to minimise the risk of interest rate growth, in current economic conditions the company prefers to borrow at fixed interest rates. The cost of floating-rate loans is tied to EURIBOR. The company regularly analyses the sensitivity of key financial indicators to LIBOR and EURIBOR fluctuations.
Liquidity risk	Liquidity risk lies in the inability of the company to meet financial obligations.	Request longer trade credit from suppliers, offer customers incentives for paying early, renegotiate debt maturities with lenders.
SHAREHOLDER RISK: ABILITY TO MITIGATE - LIMITED		
Risks related to the majority shareholder	The majority shareholder in Avangardco also owns several other companies in the food, transport, real estate and financial industries. Deterioration of performance indicators of these companies may cause a negative perception of the company by external audiences.	Avangardco continues to operate as a separate legal entity with its own treasury. The company follows best disclosure practices and limits transactions with related parties, as confirmed by KPMG audits.
LABOUR RISK: ABILITY TO MITIGATE - STRONG		
Strikes	Suspension of production due to strikes may lead to significant losses.	Avangardco employees are not unionized; all facilities operate under collective labour agreements. Avangardco creates favorable working conditions for its employees; salaries exceed the national average.
Employee turnover	The loss of qualified employees will delay the execution of the company's strategic plans.	Staff turnover among key employees is low. Avangardco offers opportunities for professional development and invests in staff development programmes.
TAX RISK: ABILITY TO MITIGATE - LIMITED		
Changes in the tax system of Ukraine	Non-compliance with laws and regulations may lead to significant fines and penalties. Changes in tax treatment of the industry may increase tax pressure on the company.	Comply with applicable tax regulations, practise legitimate tax avoidance where possible.

CORPORATE SOCIAL RESPONSIBILITY

MATERIALITY STATEMENT

Avangardco IPL is a proud and committed corporate citizen. Our corporate social responsibility is diverse and increasingly important for the company's success. As a large corporation, Avangardco IPL exerts a substantial impact on the environment, which it mitigates effectively using international best practices. The company employs thousands of employees, who all receive decent pay, fringe benefits and extensive development opportunities. The company professes zero tolerance to corruption and discrimination on any grounds whatsoever, be it race, gender, ethnic background or religion. This is best exemplified by the diversity of our Board of Directors and the fact that the company is run and led by one of the country's youngest, ablest and, yes, toughest female chief executives. What follows is Avangarco IPL's Corporate Social Responsibility Report under EU Council Directive 2014/95/EU. It includes all the required topics except Human Rights, which is immaterial and Diversity of Board of Directors disclosed under Human Capital.

HUMAN CAPITAL

Avangardco IPL: Employer of Choice

Avangardco IPL considers human capital to be one of its most valuable assets, just as important to its success as are its biological and material assets, if not more important. We are committed to maintaining a safe and comfortable work environment for our employees while providing extensive professional development opportunities and promoting a healthy work-life balance.

Merit-Based Selection & Promotion

When hiring, Avangardco IPL selects the best talent by advertising vacancies to the widest audience of qualified candidates. Selection is solely merit-based, it involves rigorous testing and screening of pre-qualified candidates.

Our Selection Process

Stage	Description	Outcome	Responsible Department
Needs assessed	HR assesses personnel needs by surveying key business and supporting departments on a regular basis	Vacancies identified	HR
TORs formulated	HR formulates terms of reference for each vacancy together with responsible business departments	TORs formulated for open vacancies	HR together with responsible business departments
Vacancies advertised	HR places ads independently and/or through the job-search websites	Vacancies advertised online on the job-search websites	HR
Applications come in from candidates	Applicants file their resumes with HR	CVs from candidates processed	HR together with responsible business departments
Resumes reviewed, candidates short-listed	Resumes thoroughly reviewed, top candidates short-listed	A short list of top candidate	HR, business department, management
Short-listed candidates interviewed	Candidates are interviewed by HR, business department	Best candidates picked for final selection	Responsible departments, management
Candidates screened/tested additionally	Candidates are screened and/or tested with background checks conducted where appropriate	Cream of the cream selected, fit and proper, and meeting top requirements	HR, responsible departments, corporate security (background checks), management
Vacancy awarded to the best candidate	Normally, the responsible business department makes the last call	Top candidate hired	Responsible business department, management

After a top candidate has been hired, he or she undergoes adaptation in the workplace,which includes:

- provision of all necessary resources for work (desktop/PC and other equipment, places for document storage, etc.);
- getting familiar with:
  - the company's structure;
  - functions and objectives of the department and interactions between the company's divisions;
  - with official duties;
  - with colleagues.

Promotions are handled with the same rigour as initial appointments and are fully merit-based. Whenever a promotion opportunity opens up candidates are selected, tested and screened with the same stringency as during initial selection.

Importantly, promotion opportunities may be advertised both within the organisation and publicly. Employees appreciate the unbiased nature of the company's promotion policy under which career advancement is based on merit and merit only.

Performance-Driven Compensation

Avangardco IPL appreciates and rewards high performance. In addition to base salary, key management personnel are compensated for achieving their key performance indicators (KPIs).

Examples of KPIs at Various Levels of Management

Level of Management	Examples of KPIs
Holdco levels (junior, middle, senior)	Sales, earnings, production, exports, biosecurity, brand awareness, CSR objectives, stock performance, etc.
Farm level	Lay, flock survival, biosecurity, waste disposal, compliance, etc.

As per the company's compensation policy, employees are additionally compensated for working on national holidays and labour-intensive activities.

The company also uses a very peculiar type of compensation, unique for the egg-farming industry and closely link to biological security. Farm personnel are banned from keeping poultry at home to prevent any contamination from homebred hens to the company's flock. It is traditional to breed a hen or two at home but our farm operators may not do that, for which they are compensated additionally, usually in kind.

Job Security and Fringe Benefits

The company treats its personnel as family. On top of what's required by the law in terms of job security, e.g. sick leaves, maternity leaves, Avangardco IPL is always ready to go the extra mile and support its employees when they need it.

The company is there for its employees in times of joy and in times of sorrow. We have a good tradition of paying small bonuses on such occasions as anniversaries. We also help our employees when they have a bereavement in the family.

Employees receive various fringe benefits depending on their role in the company, which on top of special bonuses and extra leave time, may include a company car, petrol and maintenance, rent, mobile service, transport service for workers who live far from production facilities.

The company provides its employees with the following types of extra leaves:

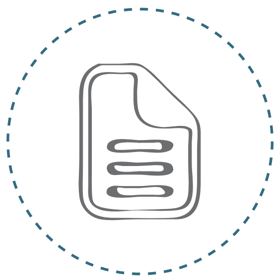

Maternity leave


Childcare leave


Additional leave for the employees with children


Study leave


Additional leave for veterans


Other types of leaves by law

Strongly Committed to Equality and Diversity

As a progressive and socially responsible business corporation, Avangardco IPL has zero tolerance to discrimination on any grounds, be it age, race, gender, religion, political affiliation or whatever it might be. The company embraces diversity and ensures fair and equitable treatment of every individual that works for it and their families.

The company's team is evenly balanced by age and gender. Furthermore, unlike most employers in Ukraine, Avangardco IPL is prepared to hire people with disabilities, people nearing retirement age and most recently – refugees from the conflict zone, aka Internally Displaced Persons (IDPs).

Our Diverse and Balanced Team

	2016	2017
Age		
Under 30	431	432
30-50	1,020	1,139
Over 50	606	728
Gender		
Women	1,011	1,133
Men	1,046	1,166
Level		
Management	258	256
Specialists	369	371
Workers	1,430	1,672
Type		
Full-time	2,057	2,299
Part-time		
Total staff at year-end	2,057	2,299

Without a doubt, the epitome of the company's adherence to gender equality is the composition of its Board of Directors, of which 50% of members are women. To top it all, the company is run by a female Chief Executive Officer, Ms. Nataliya Vasylyuk.

Human Capital Development

Avangardco IPL adheres to the highest standards of human capital development by providing its employees with extensive and versatile training opportunities. Training modalities vary and may include both on-the-job and off-the-job training options.

The company's human capital development policy includes both induction training and ongoing professional development.

The requirements for qualification of the company's employees are stated in their TORs. Head of departments are further responsible for development of employees, which is determined by:

- innovations;
- changes in legislation;
- introduction of new IT products;
- the need to improve expertise of employees.

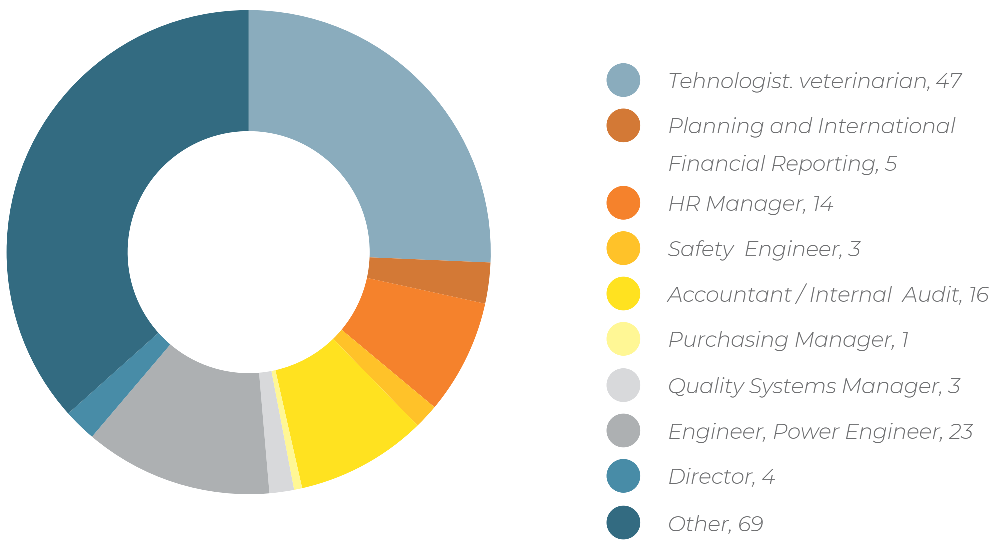
The company has developed standard training programmes for a broad range of professions used in its core and supporting activities.

Examples of Training Topics by Profession during 2017

Profession	Topic
Chief technologist	Poultry Exhibition in Atlanta, GA
Chief technologist,technologists, veterinarians	Effect of longer keeping cycles on shell quality
Chief technologist, technologists, veterinarians	Practical forum: Poultry Farming -2017
Chief technologists, technologists, veterinarians, directors	Novogen Brown Breeding and Feed Technology
Chief technologists, technologists, veterinarians, directors	Modern vaccination techniques and disease prevention in poultry
HR manager	"Conflict Management: The Art of Human Resources"
HR manager	"Travel expenses: Answers to Frequently Asked Questions"
IFRS reporting team	IFRS 9
IFRS reporting team	Model Development Technique & MS Excel Capabilities
IFRS reporting team	CIMA P1
Accounting	Taxation of agricultural enterprises
Accounting	Fixed assets
Accounting	Rules of accounting and correction of errors in it
Accounting	Risk-oriented audit: the concept and use of accounting data
Accounting	Conducting inventories and documenting their results using 1C
Quality system manager	Switch to the new version of ISO 9001: 2015 standard: what is required of enterprises

Our training activities are becoming increasingly more varied and advanced. HR develops long-term development plans both for individual trainees and entire departments.

Number of Employee-Courses, 2017



ENVIRONMENTAL SUSTAINABILITY

Avangardco IPL: Committed to Environmentally Sustainable Farming Practices

Avangardco IPL operates in an industry that has substantial impact on the environment. Cognisant of its responsibility to protect the environment, the company has implemented extensive measures to mitigate the environmental impact from its operations while adhering to sustainable egg-farming practices.

A Brief Environmental Impact Assessment: 3 Main Sources of Environmental Risk

Avangardco IPL can affect the environment in several ways. Or rather, there are several potential impacts that may not necessarily result in any harm done as long as they are mitigated by the company's stringent sustainability policies. It is therefore more appropriate to speak about environmental risks resulting from company operations rather than impacts.

Three sources of environmental risk appear material - live birds, manure and dead birds, whether of natural loss or slaughtered.

LIVE BIRDS

The risks associated with the company's laying flock fall under two broad categories:

- **Risk of disease penetrating the flock from the outside.** This risk is relatively low owing to the company's solid biosecurity defences including regular and rigorous flock inspections and vaccinations and control of flock movements between farms;
- **Risk of disease spreading from company farms to the outside world.** This risk is even lower, both for the reasons described above and due to the company's unique ability to cut off individual farms in the event of an outbreak to prevent contagion from spreading to other company farms and the outside world.

As of date of this report, Avangardco's facilities have never been affected by outbreaks of bird flu, Newcastle Disease or Marek's Disease.

DEAD BIRDS

Dead birds as part of the company's normal operations may pose environmental risks as well, unless promptly and safely disposed of.

Whenever birds die as a result of natural loss or slaughtered, their disposal follows the applicable regulatory protocols and is conducted at special facilities owned and operated by the competent authorities or businesses. The disposal of birds is conducted with the utmost stringency.

Regular slaughtering, not caused by natural loss, occurs in two situations:

- cockerels are culled and slaughtered at the hatcheries;
- laying hens are slaughtered upon retirement at the facilities of third parities in compliance with applicable regulatory protocols.

In 2017, Avangardco IPL launched a new project at Slovyany, the company's and Europe's largest hatchery, together with Honerybrook Ukraine involving the installation of powerful freezers in order to deep-freeze slaughtered cockerels. Once frozen, the cockerels are then exported.

MANURE

Manure is probably the single most significant source of pollution risk. Manure is a natural by-product of poultry farming. Its amount grows in proportion to flock expansion.

Environmentally sustainable practices of manure disposal are crucial to the company's normal operation. Unless sustainably disposed of, chicken manure poses two major risks:

- **Carbon Footprint.**
  Unless sustainably disposed of, manure poses a huge risk to the environment as a source of greenhouse gas emissions.

  The main GHGs emitted by manure are methane (CH_4), which is emitted during the anaerobic (without oxygen) decomposition of organic matter during storage and nitrous oxide (N_2O), which is emitted during storage and soil application.

  Additional gases emitted from manure include: ammonia (NH_3) and nitrogen oxides (NO_x), which contributes to odour and are indirect sources of nitrous oxide.

  The impact on the ecological systems may result from direct release of airborne constituents into the atmosphere, direct runoff to water bodies, leaching to groundwater, or indirect deposition of the airborne constituents into water bodies.

  While a lion's share of the carbon footprint left by the egg-farming industry comes from feed (69%) and is associated with emissions from grain production, which is not part of Avangardco IPL's business model, 20% of the total emissions come from manure[1].

  According to FAO, egg production has the largest carbon footprint within poultry farming. Avangardco IPL fully appreciates its role in reducing its own carbon footprint and helping mitigate harmful environmental impact at the industry level.

- **Risk of Disease.**
  Manure unless inactivated is a perfect breeding ground for various diseases. Manure should be disposed of not only safely but also promptly to prevent contagion. Manure poses a health risk to the company's own flock, its personnel and to the communities lying close to the farm.

The company's legacy farms dispose of manure by:

- Selling it to third-party land farmers as organic fertiliser (subject to decontamination);
- Depositing it in special third-party landfills;
- At its megafarm Chornobaivske, Avangardco implemented a technology that consists in converting manure through biogas capture into clean energy and biologically inactive organic fertilisers.

A biogas installation at the Chornobaivske poultry complex was launched into operation at the end of 2016.

[1] Source: MacLeod, M., Gerber, P., Mottet, A., Tempio, G., Falcucci, A., Opio, C., Vellinga, T., Henderson, B. & Steinfeld, H. 2013. Greenhouse gas emissions from pig and chicken supply chains – A global life cycle assessment. Food and Agriculture Organization of the United Nations (FAO), Rome.

Summary of Environmental Risks and their Mitigants

Source	Risk	Risk level	Mitigant
Manure	Direct release of airborne constituents in the atmosphere	Medium	Sustainable manure collection and storage practices, advanced technologies of manure inactivation through anaerobic digestion at Chornobaivske
	Indirect deposition of airborne constituents into water bodies	Low	Sustainable manure collection and storage practices, advanced technologies of manure inactivation through anaerobic digestion at Chornobaivske
	Direct runoff into water bodies	Low	Mandatory decontamination prior to delivery of organic fertiliser, being the by-product of biogas production, to third-party land farmers
	Leaching to groundwater	Low	Mandatory decontamination prior to delivery of organic fertiliser, being the by-product of biogas production, to third-party land farmers
Live birds	Contagion penetrating company flock	Low	Strong and varied biological security safeguards
	Contagion spreading from company farms to the outside world	Low	Full traceability of laying hens from hatching to retirement, regular vaccinations and rigorous flock inspections
Dead birds	Potential impact from fallen and slaughtered laying hens unless sustainably retired and disposed of	Low	Birds disposed of as per regulatory protocols, slaughtering operations consistent with international best practices, deep freezing of slaughtered cockerels at hatcheries.

Green Economy: Biogas Operations Help Reduce Carbon Footprint by Converting Manure to Clean Energy

In November 2016, Avangardco IPL put into operation a biogas plant at Chornobaivske poultry complex that started generating electricity in 2017.

During its first year of operation, the biogas plant processed an impressive 57,365.62 tonnes of manure.

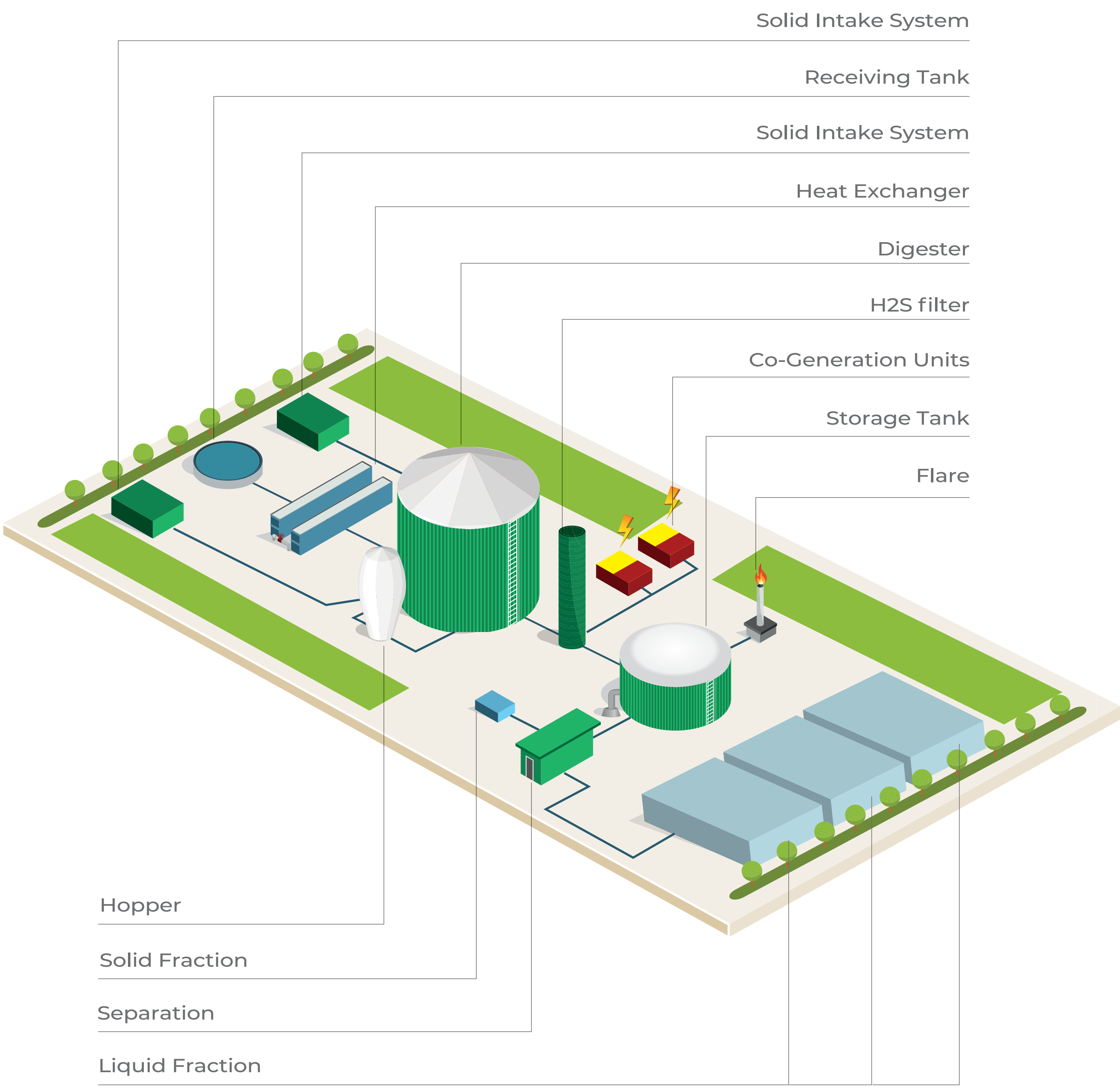
Technology

The biogas plant runs on chicken manure. Biogas is captured from the manure through anaerobic digestion. The share of methane – CH_4 – in the mixture is at least 50%, as confirmed by extensive testing.

The biogas is then combusted in a co-generation chamber to produce electric power and thermal energy.

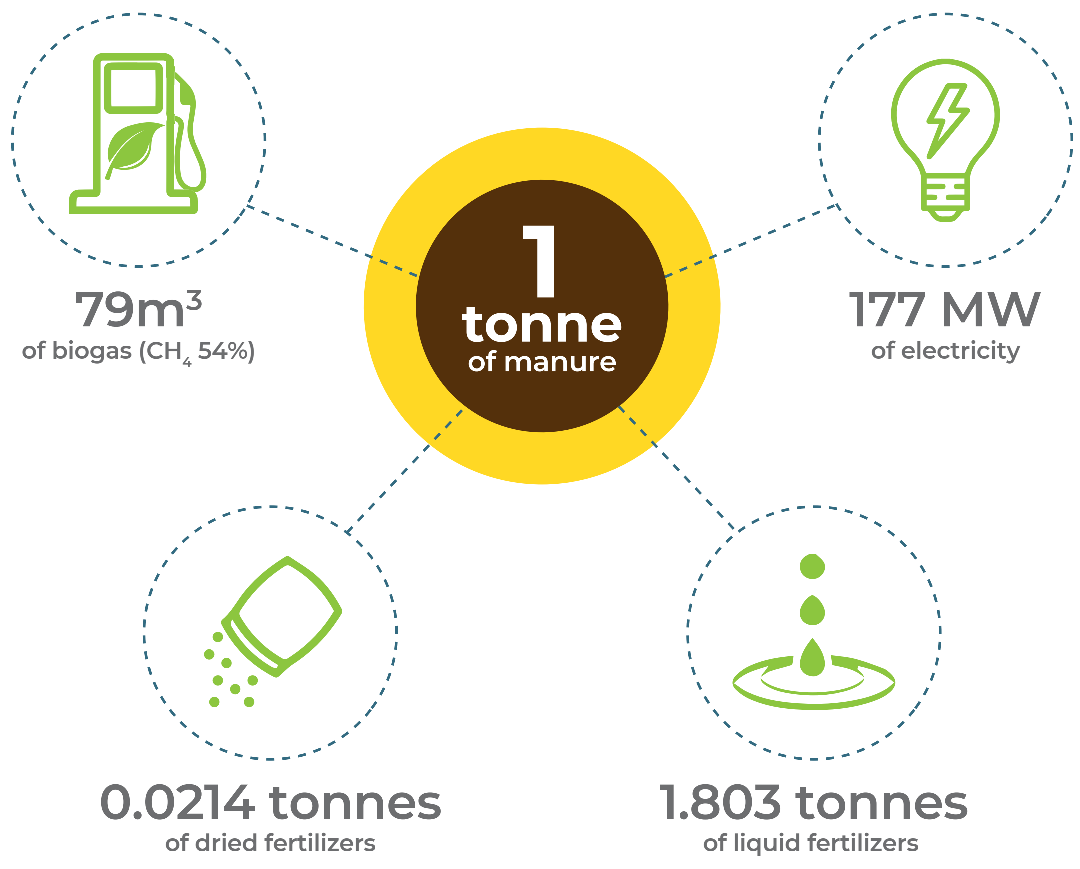
A unique feature of this biogas technology is that, unlike most other alternatives, it does not require the addition of silage, which dramatically improves the economics because silage would have to be procured, stored and processed. The downside is that the substrate that does not include silage is less stable but the developer of this technology, Bigadan A/S has the knowhow to mitigate such instability. Our plant is the first implementation of this technology on an industrial scale.

Biogas Technology Map, Chornobaivske



Performance

Balance of the Biogas Plant at Chornobivske



Green (Feed-in) Tariff

Avangardco IPL fully benefits from the preferential treatment accorded by the Ukrainian government to clean energy producers. A green, aka feed-in, tariff was introduced in Ukraine in 2009. It is aimed at stimulating clean energy production.

When designing its biogas facilities, Avangardco IPL factored in the additional economies that would be derived or gains made by producing surplus electricity that the company would sell to the grid.

As a matter of fact, it our preference to sell not just the surplus, but all our clean electricity to the grid at the green tariff, which is two to three higher than the price we are paying to buy power from the grid.

In 2017, we produced a total 6,517,289 kWh of electricity, of which 4,279,932 kWh was sold to the grid at the preferential green (feed-in) tariff, the balance consisting of two components – 1,590,386 kWh was consumed by the poultry complex itself (before the agreement to sell electricity to the grid at a green tariff has been concluded) and 646,971 kWh was used for biogas plant operation and technical losses.

GOOD CORPORATE CITIZENSHIP

Avangardco IPL: To Support and Enable

Avangardco IPL considers itself to be a good corporate citizen, committed to the many communities where the company conducts operations. There's more to good corporate citizenship than charity. The company engages in numerous activities focusing on giving support to those who need it and enabling those who lack opportunities to realise their potential.

To Support and Enable, Selected Activities in 2017

TO SUPPORT:

- 78 th eggs donated to the volunteer batallion Kherson
- Sweet gift boxes for employees' children on St. Nicholas Day
- Purchase of a gas stove with an exhaust hood for the kindergarten in the village of Shidne
- Purchase of 74 gift boxes on St. Nicholas Day for pupils of the local school in Borivka village
- Eggs sold at a discount at local food fairs
- Donation to the local hospital in Borivka village to buy supplies and uniforms
- Donation to the local school in Gymentsy village

TO ENABLE:

- Sponsorship of the Basketball Federation of Ukraine
- Repairing the road between the villages of Sadky and Borivka
- Football gear for schoolchildren in Shidne village
- School bus service for a schoolboy from Lysytsya village
- Purchase of a grass trimmer for the village of Musykivka

A HIGH STANDART OF COMPLIANCE

Avangardco IPL: Zero Tolerance to Corruption

Avangardco IPL holds itself to a high standard of compliance with policies in place to deter, prevent and punish any bribery or corruption. Such policies rely on the use of fair and transparent mechanisms. Furthermore, the company nourishes a corporate culture of zero tolerance to corruption and rigorously enforces its anti-corruption policies.

Strong Institutional Capacity in Place to Fight Corruption

The company has put in place a solid anti-corruption framework with strong capacity to prevent, detect, investigate and punish any bribery or corruption.

1) Security Service

As part of the company's security service, there is a special department responsible for financial and economic security. It monitors employee compliance with the limitations of their individual roles and assesses the impact of non-compliance on the company's performance and bottom line. The department also monitors any bribery or corruption as may be attempted by employees at all levels and in all divisions of the company including senior executives, managers, consultants, contractors, regardless of their location. Their duties also include the anti-corruption review of organizational and administrative documents.

2) Department of Financial Control

The Financial Department ensures accurate accounting and financial reporting by divisions of the company. Accounts, records and general-use financial statements of the company constitute public information.

3) Internal Audit Department

The Department reports directly to the CEO. The department is responsible for risk assessment, evaluation of controls effectiveness and prevention and elimination of errors and deficiencies on company accounts.

4) Purchasing and Planning Department

All procurement is carried out through a tender committee, which ensures an open and competitive framework for procurement procedures. Procurement is subject to planning, it is conducted expeditiously, competitively and cost-effectively.

5) Contract Management Department

The department controls contract execution, ensures compliance with applicable laws and absence of unacceptable provisions in the document.

We would like to emphasise that the company provides its employees with competitive wages and proper working conditions in full compliance with the Labour Code of Ukraine. Avangardco IPL encourages and promotes career advancement within the company. We believe that our employees are motivated enough to perform their duties in good faith, without resorting to corruption bribery in pursuit of dishonest gain.

The company's employees are strictly prohibited from accepting undue payments from customers, "kickbacks", compensations in the form of cash or goods and services.

An employee found guilty of embezzlement, abuse of power, bribery or other illegal activities is subject to dismissal, regardless of the amount of damages, whether the damage has been restituted or their position within the company. This is zero tolerance to corruption in action.

Background Checks in Hiring and Promotion

To nip corruption in the bud, Avangardco IPL conducts extensive background checks when hiring and promoting employees. In exceptional cases, polygraph testing may be used in strict compliance with applicable laws and regulations.

Competitive Procurement

As part of its cutting-edge ITC environment, Avangardco IPL has deployed an advanced competitive procurement system, APS-Tender.

The system helps:

- increase the cost-effectiveness of procurement decisions;
- ensure that procurement stays on budget;
- identify and fast-track major or urgent items of procurement without prejudice to transparency or competitive nature of procurement;
- implement and operate continuous procurement monitoring systems;
- predict, plan and execute procurement plans;
- prevent fraud in procurement and mitigate adverse selection risk.

SUSTAINABLE DEVELOPMENT STRATEGY

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

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

Transparency

We do business in a transparent manner and remain open to our stakeholders both as a public corporation and as a socially and environmentally responsible company.

Quality

We focus on product and service quality. While our other competitive advantages can help us attract new clients, high product quality is a key factor for client retention.

Safety

We strive to ensure the safety of our operations and products for employees, consumers and the environment.

Sustainability

We pursue sustainable development. Innovation, quality, efficiency and safety allow us to continue to create value for both consumers and shareholders.

Innovation

We use innovation to be as efficient as possible in today's rapidly changing global business environment.

Efficiency

We do business with maximum efficiency; this gives us a platform for long-term growth and creation of long-term value for both consumers and shareholders.

Commitment

We honour our obligations and maintain our long-term reputation as a reliable partner.

Quality and Safety Management System

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

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

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

Ongoing Quality Control

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

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

Certificates

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

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

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

ISO 9001:2015 Certificate:

ISO 22000:2005 Certificate, Avis:

HACCP system Certificate, Avis:

ISO 22000:2005 Certificate, Chornobaivske:

ISO 9001:2015 Certificate, Imperovo Foods:

FSSC 22000 Certificate, Imperovo Foods:

ISO 22000:2005 Certificate, Imperovo Foods:

Halal Certificate:

Biosecurity

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

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

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

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

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

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

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

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

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

We constantly monitor the health of our employees as well as of the poultry population.

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

Corporate Governance Statement

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

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

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

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

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

Avangardco's Corporate Governance System

Board Composition and Balance

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

The current Board of Directors is as follows:

- Oleg Bakhmatyuk
  (Chairman of the Board)
- Nataliya Vasylyuk
  (Chief Executive Officer)
- Oleg Michael Pohotsky
  (Independent Non-Executive Director)
- Iryna Melnyk
  (Chief Financial Officer)

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

Board of Directors' Responsibilities and Meetings

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

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

Board Committees

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

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

- The Audit Committee
  The Audit Committee shall comprise not less than three Directors, at least one of whom will be an independent Non-Executive Director. The Audit Committee's responsibilities include, among other things, reviewing the company's financial statements, accounting policies and internal controls and overseeing its relationship with its external auditors.
- The Nomination Committee
  The Nomination Committee shall comprise not less than three Directors, two of whom will be independent non - executive Directors. The Nomination Committee's responsibilities include, among other things, reviewing the composition of the company's Board of Directors and making recommendations to the Board with regard to any changes.
- The Remuneration Committee
  The Remuneration Committee shall comprise not less than three Directors, two of whom will be independent non-executive Directors. The Remuneration Committee's responsibilities include, among other things, determining the company's policy on remuneration; however, no Director or manager will be entitled to vote on any decisions regarding his or her own remuneration.

CORPORATE GOVERNANCE

Corporate Governance Structure:

Oleg Bakhmatyuk (Chairman of the Board)

Board of Directors

- Nataliya Vasylyuk, CEO
- Oleg Michael Pohotsky, Independent Non-Executive Director
- Iryna Melnyk, CFO
- Independent Director To be appointed

- Audit Committee To be appointed
- Nomination Committee To be appointed
- Remuneration Committee To be appointed

Executive Board

- Nataliya Vasylyuk - Chief Executive Officer
- Iryna Melnyk - Chief Financial Officer
- Vasyl Marchuk - Head of Business Development
- Volodymyr Rudenko - Chief Operations Officer
- Stanislav Pohorilyi - Deputy Chief Financial Officer

BOARD OF DIRECTORS

Oleg Bakhmatyuk
Chairman of the Board

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

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

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

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

Nataliya Vasylyuk
Board Member

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

BOARD OF DIRECTORS (CONT.)

Oleg Michael Pohotsky
Independent Non-Executive Director

Oleg Pohotsky holds an MBA from the Harvard University Graduate School of Business and a Juris Doctor degree from the University of Miami Law School. He also holds a BSChE degree from Clarkson University. Mr. Pohotsky has been the Managing Partner of Right Bank Partners, a corporate governance and strategy advisory firm. He serves as Chairman of the Board of the H&Q Healthcare and Life Sciences Funds and as a Director of the New America High Income Fund.

All three closed-end funds are NYSE-listed. Mr. Pohotsky also serves on the Board of Advisors of Kaufman & Co., a Boston-based boutique investment banking firm and in the position of Senior Advisor to Governance Metrics International.

Mr. Pohotsky has served as an Independent Non-Executive Director of the company since 2011.

Iryna Melnyk
Board Member

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

MANAGEMENT BOARD

Nataliya Vasylyuk
Chief Executive Officer

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

Iryna Melnyk
Chief Financial Officer

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

MANAGEMENT BOARD (CONT.)

Vasyl Marchuk
Head of Business Development

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

Volodymyr Rudenko
Chief Operations Officer

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

Stanislav Pohorilyi
Deputy Chief Financial Officer

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

Board of Directors and Other Officers

BOARD OF DIRECTORS:

Oleg Bakhmatyuk
(Chairman of the Board)

Nataliya Vasylyuk
(Chief Executive Officer)

Oleg Michael Pohotsky
(Non Executive Director)

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

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

COMPANY SECRETARY:

Gliage Investments Limited
3 Anexartisias & Kyriakou Matsi
3040 Limassol
Cyprus

REGISTERED OFFICE:

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Cyprus

LEGAL ADVISORS:

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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 2017, 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 2017:

Stanislav Pohorilyi (Deputy CFO)

22 March 2018

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 2017.

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 2017 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 6 734 thousand (2016: loss USD 56 978 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 7 469 thousand compared to a loss of USD 56 636 thousand in the previous year.

The loss is mainly a result of the continued decline in revenue due to the decrease in exports (mostly because of import ban due to avian influenza in the first quarter) and the fall of prices of eggs. This is compensated by the income from government grants and incentives and the gain on exchange which is mainly a result of the retranslation of long-term bond liabilities.

The Group's total assets also decreased to USD 512 781 thousand from USD 529 491 thousand mainly due to Ukrainian Hryvnia devaluation.

Future development

The Management of the Group is focused on implementing its targets and strategy despite the challenging conditions in the domestic and export markets. A recent positive development is the EU approval to start exporting shell eggs in that region.

Additionally, the Company and its advisors continue to be engaged in discusions with various groups in relation to its debt restructuring process which is a result of breach of covenants of its bonds and debt agreements with several banks.

Dividends

Based on the results, the Board of Directors does not recommend the payment of a dividend for the year (2016: nil).

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are disclosed in notes 35 and 38 to the consolidated financial statements.

The economic situation in Ukraine has significantly deteriorated since 2014 after the annexation of Crimean peninsula by the

Russian Federation (further – the RF), the event that was recognized by neither Ukraine nor the World community. This development has lead to substantial deterioration of relations between Ukraine and the RF. The Crimea annexation has spread the pressure throughout the Eastern regions of Ukraine (mostly Donetsk Oblast' and Lugansk Oblast'). In May 2014, the social unrest fueled by the RF, has grown into a military conflict between self-proclaimed Donetsk and Lugansk People's Republics and Ukrainian troops. The military conflict has not been resolved yet. The Donetsk Oblast' and Lugansk Oblast' are partly controlled by self-proclaimed Donetsk and Lugansk People's Republics. Ukrainian authorities are incapable of enforcing the law on these territories.

These events have led to the disappearance of economic links between Ukraine and the RF, the key export destination for many Ukrainian industries. Ukraine has lost control over large mining companies concentrated in the East of the country, which significantly decreased the inflow of foreign currency. Eventually, the national GDP has dropped, public finances have eroded, the national currency has suffered severe devaluation and the credit rating of the sovereign debt has continued to deteriorate. The newly elected Government of Ukraine had no financial power to avoid the economic downfall in years 2014-2015. Minimal international reserves and exhausted government accounts have forced the government to introduce administrative anti-crisis tools. The National Bank of Ukraine has introduced currency restrictions: conversion limits, the requirement to convert 75% of foreign currency revenue into national currency, abroad dividend payment ban, ban on early repayment of foreign loans, cash withdrawal limitations. Such restrictions have limited the abilities of Ukrainian companies and banks to lend and borrow money on domestic and international markets.

It is hard to foresee the eventual outcome of the conflict with the RF and the Ukrainian economic crisis. In case of resumption of hostilities in the East of Ukraine, the government will be forced to increase military spending and face another period of economic turbulence. To date, we can conclude the Ukrainian government has managed to stabilize the economy. In years 2016-2017 the GDP growth was 2,3% and 2% respectfully (the best growth indicator since 2012). The administrative restrictions are being gradually lifted. The law on currency regulation enters into force in 2018; it is designed to liberalize the currency market and stimulate foreign economic activities. Despite the floating exchange rate introduced on the IMF's demand, national currency is rather stable. There are signs of recovery from deep economic crisis of years 2014-2015.

The management of the Group takes all the necessary steps to support the financial stability of the Group in current circumstances. Despite the first signs of economic recovery, we are still suffering from significant devaluation of national currency. The value of UAH has decreased by 3,5 times since the beginning of the military conflict in early 2014. This was followed by the drop in the demand on domestic market ignited by the deterioration of purchasing power of Ukrainians.

That is why we look to the future with cautious optimism. We understand that it will take several years to recover from crisis. This consolidated financial report reflects current Management's view on the influence of the Ukrainian business environment on the financial standing of the Group. The future developments in Ukrainian economy can differ from the Management's expectations. This financial report was not adjusted for any events after the reporting period.

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 2017 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 39 to the consolidated financial statements.

Branches

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

Related party balances and transactions

Disclosed in note 32 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, 22 March 2018

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 financial statements of AvangardCo Investments Public Limited (the "Company"), and its subsidiaries (the "Group"), which are presented on pages 11 to 77 and comprise the consolidated statement of financial position as at 31 December 2017, 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 Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

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

Material uncertainly related to going concern

We draw attention to notes 2.4, 4.12, 35 and 38 to the consolidated financial statements, which describe the political and economic environment in Ukraine and Management's assessment that the Group will continue as a going concern. The impact of the events described in notes 4.12, 35 and 38 on the Ukraine economy, the operations of the Group and its ability to meet its obligations as they fall due cannot be determined. In addition, the fact that the Group incurred a loss for the year amounting to USD 7,5m and its current liabilities as at 31 December 2017 exceeded its current assets by USD190m and that it is also in breach of covenants of its bonds and debt agreements with several banks, which triggered a debt restructuring process, may indicate an uncertainty as to the Group's ability to continue as a going concern. Our opinion is not modified 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statementes as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of biological assets

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

The key audit matter	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. As at 31 December 2017 the total fair value of biological assets is USD 19,9m. Estimating the fair value is a complex process and required the use of valuation models which employed discounted cash flow techniques. The inputs to the aforementioned valuation model required a number of significant judgments andeatimates and uses a number of inputs from mostly internal sources. Such estimates and judgments are subject to an inherent risk of error. Consequently, we have determined the valuation of biological assets to be a key audit matter.	Our audit procedures in this area included, among others: » considering the appropriateness of the valuation methodology by reviewing the valuation expert's report on the methodology used by the Group and agreeing its consistency with IFRS. The competencies of the expert were also assessed; » 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 management report, the corporate governance statement and the corporate social responsibility statement, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

With regards to the corporate social responsibility statement we have nothing to report.

With regards to the management report and the corporate governance statement, our report is presended in the *"Report on other legal and regulatory 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 fraund 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 thr Group's financial reporting process.

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matter communicated with those charged with governance, 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.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors of the Group by the General Meeting of the Company's members on 29 August 2011. Our appointment has been renewed annually by shareholder resolution. Our total uninterrupted period of engagement is 7 years covering the period ending 31 December 2011 to 31 December 2017.

Consistency of the additional report to the Audit Committee

Although there is a legal requirement to have an Audit Committee, by the date of our report the Group did not manage to establish one. The additional report was presented to Those Charge with Governance on the 27th of February 2018 and our audit opinion is consistent with it.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

For the period to which our statutory audit relates, in addition to the audit, we have provided Tax Services amounting to USD600 to the Group which are not disclosed in the management report or in the consolidated financial statements.

Other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, 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 consolidated financial statements.

- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of the 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 in the Group's Annual Report has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) 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 69 of Law 53(I)/20017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

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

22 March 2018

Consolidated statement of financial position
AS AT 31 DECEMBER 2017
(in USD thousand, unless otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS			
Property, plant and equipment	5	334 640	357 821
Non-current biological assets	6	3 732	14 273
Deferred tax assets	18	8 662	5 663
Held to maturity investments	7	2 840	5 700
Other non-current assets		5	5
Non-current assets		349 879	383 462
Inventories	9	56 301	62 144
Current biological assets	6	16 160	7 755
Trade accounts receivable, net	10	45 376	40 628
Prepaid income tax		35	41
Prepayments and other current assets, net	11	8 939	14 412
Taxes recoverable and prepaid	8	17 849	8 479
Cash and cash equivalents	12	18 242	12 570
Current assets		162 902	146 029
TOTAL ASSETS		512 781	529 491
EQUITY			
Share capital	13	836	836
Share premium	13	201 164	201 164
Reserve capital	13	115 858	115 858
Retained earnings		857 723	864 457
Effect of translation into presentation currency		(1 099 825)	(1 053 923)
Equity attributable to owners of the Company		75 756	128 392
Non-controlling interests		8 765	10 418
TOTAL EQUITY		84 521	138 810
LIABILITIES			
Long-term bond liabilities	15	-	219 014
Long-term loans	14	42 750	93 924
Deferred tax liabilities	18	308	351
Deferred income		1 002	1 123
Dividends payable		29 542	29 542
Long-term finance lease		-	3
Non-current liabilities		73 602	343 957
Short-term bond liabilities	15	231 612	-
Current portion of non-current liabilities	17	91 760	31 224
Trade payables	19	2 298	3 062
Other accounts payable	20	28 988	12 438
Current liabilities		354 658	46 724
TOTAL LIABILITIES		428 260	390 681
TOTAL EQUITY AND LIABILITIES		512 781	529 491

On 22 March 2018 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

Consolidated statement of profit and loss and other comprehensive income FOR THE YEAR ENDED 31 DECEMBER 2017

(in USD thousand, unless otherwise stated)

	Note	for the year ended 31 December 2017	31 December 2016
Revenue	22	127 887	191 304
Loss from revaluation of biological assets at fair value	6	(3 108)	(2 232)
Cost of sales	23	(134 916)	(175 875)
GROSS (LOSS)/PROFIT		(10 137)	13 197
General administrative expenses	25	(8 955)	(7 886)
Distribution expenses	26	(7 746)	(8 558)
Income from government grants and incentives	30.1	19 242	98
Income from special VAT treatment	30.2	-	5 376
Other operating income/(expenses)	27	3 804	(17 107)
LOSS FROM OPERATING ACTIVITIES		(3 792)	(14 880)
Finance income	29	1 982	2 825
Finance costs	28	(33 699)	(31 280)
Losses on exchange		24 729	(16 622)
NET FINANCE COSTS		(6 988)	(45 077)
LOSS BEFORE TAX		(10 780)	(59 957)
Income tax credit	18	3 311	3 321
LOSS FOR THE YEAR		(7 469)	(56 636)
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that are or may be reclassified subsequently to profit or loss			
Effect from translation into presentation currency		(46 820)	(39 609)
TOTAL COMPREHENSIVE INCOME		(54 289)	(96 245)
LOSS ATTRIBUTABLE TO:			
Owners of the Company		(6 734)	(56 978)
Non-controlling interests		(735)	342
		(7 469)	(56 636)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		(52 636)	(92 816)
Non-controlling interests		(1 653)	(3 428)
		(54 289)	(96 245)
Loss per share			
Basic and diluted (USD)	34	(1)	(9)

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 2017

(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 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
Balance at 1 January 2017	836	115 858	201 164	864 457	(1 053 923)	128 392	10 418	138 810
Comprehensive income								
Loss for the year	-	-	-	(6 734)	-	(6 734)	(735)	(7 469)
Effect from translation into presentation currency	-	-	-	-	(45 902)	(45 902)	(918)	(46 820)
Total comprehensive income	-	-	-	(6 734)	(45 902)	(52 636)	(1 653)	(54 289)
Balance at 31 December 2017	836	115 858	201 164	857 723	(1 099 825)	75 756	8 765	84 521

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

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

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

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

Consolidated statement of cash flows
FOR THE YEAR ENDED 31 DECEMBER 2017
(in USD thousand, unless otherwise stated)

		for the year ended	
	Note	31 December 2017	31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(10 780)	(59 957)
Adjustments for:			
Depreciation of property, plant and equipment	5	15 411	15 657
Change in allowance for irrecoverable amounts		(4 488)	18 582
Gain on disposal of current assets	27	(31)	(14)
Loss/(income) on disposal of non current assets	27	30	(150)
Impairment of current assets	27	138	709
Effect of fair value adjustments on biological assets	6	3 108	2 232
Gains realised from accounts payable written-off	27	(400)	(262)
Amortization of deferred income on government grants		(91)	(98)
Discount bonds amortization		2 304	2 096
Discount on VAT government bonds amortization		(1 088)	(1 449)
Interest income		(894)	(1 376)
Interest payable on loans and bonds		31 327	29 186
Income from received government grants VAT		(19 151)	-
(Gains)/losses on exchange		(14 537)	16 622
Operating (loss)/profit before working capital changes		**858**	**21 778**
Increase in trade receivables		(4 023)	(5 802)
Decrease in prepayments and other current assets		8 843	224
(Increase)/decrease in taxes recoverable and prepaid		(6 250)	7 134
Decrease/(increase) in inventories		4 026	(11 945)
Decrease in deferred income		(1)	(7)
(Decrease)/increase in trade payables		(306)	351
Increase in biological assets		(1 579)	(196)
Decrease in finance leases		(3)	(39)
Increase/(decrease) in other accounts payable		6 316	(10 486)
Cash generated from operations		**7 881**	**1 012**
Interest paid		(3 504)	(4 224)
Income tax paid		(19)	(43)
Net cash generated from/(used in) operating activities		**4 357**	**(3 255)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments and receipts - property, plant and equipment		(1 585)	(12 981)
Proceeds from sale of non-current assets		-	779
Interest received		1 032	2 829
Net cash used in investing activities		**(553)**	**(9 373)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans received		-	50 208
Repayment of loans		-	(51 952)
Interest paid for bonds issued		-	(5 247)
Net cash used in financing activities		-	**(6 991)**
Net increase/(decrease) in cash and cash equivalents		**3 804**	**(19 619)**
Cash and cash equivalents at 1 January		12 570	31 307
Effect from translation into presentation currency		1 868	882
Cash and cash equivalents at 31 December	12	**18 242**	**12 570**

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

Notes to the consolidated financial statements
FOR THE YEAR ENDED 31 DECEMBER 2017
(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 2017 comprise the Company and its subsidiaries (together with the Company referred to as the "Group").

The ultimate parent which prepare consolidated financial statements is UkrlandFarming PLC whose registered office is the same as the Company's.

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 2017 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 38 to the consolidated financial statements.

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

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

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

Company name	Principal Activity	Country of registration	Ownership interest (%) 31 December 2017	Ownership interest (%) 31 December 2016
PJSC Agroholding Avangard	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 Chervoniy Prapor		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 Trade Avangard Agro (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	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%	93,00%

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 2017 with nominal value of € 0,10 per share.

The shares were distributed as follows:

Owner	31 December 2017		31 December 2016	
	Number of shares	Ownership interest (%)	Number of shares	Ownership interest (%)
Omtron Limited	1 848 575	28,9%	1 848 575	28,9%
Tanchem Limited	926 280	14,5%	926 280	14,5%
Mobco Limited	1	-	1	-
BNY (Nominees) Limited	1 437 500	22,5%	1 437 500	22,5%
UkrLandFarming Plc	2 174 825	34,1%	2 174 825	34,1%
Other	4	-	4	-
	6 387 185	100,0%	6 387 185	100,0%

As at 31 December 2017 and 31 December 2016 the interests in Omtron Limited and Tanchem Limited beneficially owned by UkrLandFarming Plc were as follows:

	Ownership interest (%) as at 31 December 2017	Ownership interest (%) as at 31 December 2016
Omtron Limited	100%	100%
Tanchem Limited	100%	100%

As at 31 December 2017 and 31 December 2016 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 2017	Ownership interest (%) as at 31 December 2016
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 2017.

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 of the Group are making every effort to implement their targets and strategy despite the challenging conditions in the domestic and export markets. Additionally they are closely monitoring the Group's cash flows and capital base position and have reviewed the current situation and environment of the Group as described in note 38 to the consolidated financial statements.

As at 31 December 2017 the Group had overdue principal and interest payments and breached covenants of debt agreements with several banks and the Eurobonds. The Group continue its constructive negotiations with banks and representatives from the Eurobond holders with a positive intent to reach an agreement with acceptable terms for both parties that will ensure the strengthening of the financial position of the Group maximising its potential for strong returns in a world economy that is returning to a more positive growth potential compared with a rather stagnant past few years.

The Board of Directors strongly believes that the Group has profitability potential which will enable holders to positively consider the restructuring plan of the Group.

For the next 12 months the management is doing all relevant efforts to improve both the liquidity but also the profitability and capital base of the Group. These consolidated financial statements do not comprise any adjustments in case of the the Group's inability to continue as a going concern.

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 2017, 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 2017. 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

- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (IFRS 1 and IAS 28)).
- 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).
- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (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 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

Preliminary impact of IFRS 9 on the Group

IFRS 9 "Financial Instruments" sets out requirements for recognizing and measuring financial assets and financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 "Financial Instruments: recognition and Measurement".

The new impairment requirements is expected to have an impact on the Group's consolidated financial statements from the not yet able to provide quantitative information about the expected impact since the Group is in the pricess of building and testing models, assembling data and calibrating the impairment stage transfer criteria. The impact is also dependent on finalising the classification assessment and the current circumstances. Management expects loss allowances under IFRS 9 to be in the same level as IAS 39.

IFRS 9 Implementation Programme

The Group expects that it will be in a position to provide quantitative information on the impact of the transition to IFRS 9 on its financial position and performance in its next reported consolidated financial statements (for the 6 months ending 30 June 2018).

(ii) Standards and Interpretations not yet adopted by the EU

- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (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 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019).
- IAS 19 (Amendments) "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019).

- IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).

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 2017.

Transactions under common control

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

Subsidiaries

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

Loss of control

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

Combinations of businesses under common control

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

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

Acquisitions of business not under common control

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

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

Transactions eliminated on consolidation

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

Non-controlling interests (NCI)

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

Business combinations and goodwill

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

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

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

Any contingent 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.

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 2017	Weighted average for the year ended 31 December 2017	31 December 2016	Weighted average for the year ended 31 December 2016
US dollar to Ukrainian Hryvnia	28,0672	26,5947	27,1909	25,5458
Euro	0,8379	0,8861	0,9567	0,9023

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

(b) Presentation currency

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

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

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

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

3.3 Property, plant and equipment

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

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

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

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

Expenses after the initial recognition of property, plant and equipment

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

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

Subsequent measurement of property, plant and equipment

After initial recognition as an asset, the Group applies the model of accounting for the property, plant and equipment at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively.

Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

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

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

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

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

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

Derecognition

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

Impairment

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

Assets under construction and unistalled equipment

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

3.4 Financial instruments

(i)Non-derivative financial assets

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

(a) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable 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 reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayments and amortization and the current fair value, less impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to the application of the effective interest method are reflected as a component of interest income. If in a subsequent period the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized then the impairment loss is reversed, with the amount of reversal recognized in profit or loss. However, any subsequent recovery 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.

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.

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.

(a) Loans and borrowings

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

Initial recognition

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

Subsequent measurement

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

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

Derecognition

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

3.5 Bonds

Initial recognition

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

Subsequent measurement

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

Derecognition

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

3.6 Inventories

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

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

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

Impairment of inventories

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

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

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

3.7 Biological assets

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

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

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

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

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

The difference between the fair value less estimated costs to sell is recognised in profit or loss.

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

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

Determination of the fair value of biological assets

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

Determination of the fair value of agricultural produce

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

3.8 Cash and cash equivalents

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

3.9 Impairment of non-current assets

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

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

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

3.10 Value added tax (VAT)

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

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

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

The Group's entities apply the special VAT taxation treatment prescribed by the Tax Code of Ukraine, which entered into force on 1 January 2011, regarding the agricultural activities, which provides preferential VAT treatment to support agricultural producers. As from 1 January 2017 this regim was abolished.

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

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

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

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

3.11 Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

3.12 Revenue recognition

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

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

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

3.13 Finance income/expense

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

3.14 Leases

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

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

Group as a lessee

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

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

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

Group as a lessor

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

3.15 Distribution of dividends

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

3.16 Borrowing costs

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

3.17 Government grants

Recognition of government grants

The Group recognises government 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.

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.

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.

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

4.6 Impairment of receivables

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

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

Group approach is used in calculating the impairment of receivables:

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

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

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

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

4.7 Legal proceedings

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

4.8 Impairment of obsolete and surplus inventory

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

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

4.9 Deferred tax assets

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

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

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

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

4.10 Contingent liabilities

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

4.11 Measurement of fair values

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

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

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board of Directors.

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

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

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

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

4.12 Ukrainian business environment

The economic situation in Ukraine has significantly deteriorated since 2014 after the annexation of Crimean peninsula by the Russian Federation (further – the RF), the event that was recognized by neither Ukraine nor the World community. This development has lead to substantial deterioration of relations between Ukraine and the RF. The Crimea annexation has spread the pressure throughout the Eastern regions of Ukraine (mostly Donetsk Oblast' and Lugansk Oblast'). In May 2014, the social unrest fueled by the RF, has grown into a military conflict between self-proclaimed Donetsk and Lugansk People's Republics and Ukrainian troops. The military conflict has not been resolved yet. The Donetsk Oblast' and Lugansk Oblast' are partly controlled by self-proclaimed Donetsk and Lugansk People's Republics. Ukrainian authorities are incapable of enforcing the law on these territories.

These events have led to the disappearance of economic links between Ukraine and the RF, the key export destination for many Ukrainian industries. Ukraine has lost control over large mining companies concentrated in the East of the country, which significantly decreased the inflow of foreign currency. Eventually, the national GDP has dropped, public finances have eroded, the national currency has suffered severe devaluation and the credit rating of the sovereign debt has continued to deteriorate. The newly elected Government of Ukraine had no financial power to avoid the economic downfall in years 2014-2015. Minimal international reserves and exhausted government accounts have forced the government to introduce administrative anti-crisis tools. The National Bank of Ukraine has introduced currency restrictions: conversion limits, the requirement to convert 75% of foreign currency revenue into national currency, abroad dividend payment ban, ban on early repayment of foreign loans, cash withdrawal limitations. Such restrictions have limited the abilities of Ukrainian companies and banks to lend and borrow money on domestic and international markets.

It is hard to foresee the eventual outcome of the conflict with the RF and the Ukrainian economic crisis. In case of resumption of hostilities in the East of Ukraine, the government will be forced to increase military spending and face another period of economic turbulence. To date, we can conclude the Ukrainian government has managed to stabilize the economy. In years 2016-2017 the GDP growth was 2,3% and 2% respectfully (the best growth indicator since 2012). The administrative restrictions are being gradually lifted. The law on currency regulation enters into force in 2018; it is designed to liberalize the currency market and stimulate foreign economic activities. Despite the floating exchange rate introduced on the IMF's demand, national currency is rather stable. There are signs of recovery from deep economic crisis of years 2014-2015.

The management of the Group takes all the necessary steps to support the financial stability of the Group in current circumstances. Despite the first signs of economic recovery, we are still suffering from significant devaluation of national currency. The value of UAH has decreased by 3,5 times since the beginning of the military conflict in early 2014. This was followed by the drop in the demand on domestic market ignited by the deterioration of purchasing power of Ukrainians.

That is why we look to the future with cautious optimism. We understand that it will take several years to recover from crisis. This consolidated financial report reflects current Management's view on the influence of the Ukrainian business environment on the financial standing of the Group. The future developments in Ukrainian economy can differ from the Management's expectations. This financial report was not adjusted for any events after the reporting period.

5. Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in-progress and uninstalled equipment	Total
Cost								
Balance at 1 January 2017	1 037	211 247	38 780	102 745	2 422	1 198	61 475	418 904
Acquisitions	-	647	269	492	7	47	33	**1 495**
Disposals	(2)	(17)	(40)	(7)	(52)	(8)	(1 394)	**(1 520)**
Internal transfers	-	3 746	114	389	-	24	(4 273)	**-**
Foreign currency translation	(32)	(6 904)	(1 137)	(3 274)	(73)	(42)	911	**(10 551)**
Reclassification	-	1 386	(1 780)	394	-	-	-	**-**
Balance at 31 December 2017	1 003	210 105	36 206	100 739	2 304	1 219	56 752	408 328
Accumulated depreciation								
Balance at 1 January 2017	-	26 367	7 287	25 079	1 459	891	-	61 083
Depreciation charge	-	6 213	2 414	6 493	170	121	-	**15 411**
Depreciation eliminated on disposal	-	(6)	(24)	(4)	(52)	(7)	-	**(93)**
Foreign currency translation		(1 158)	(345)	(1 123)	(55)	(32)	-	**(2 713)**
Reclassification	-	173	(173)	-	-	-	-	**-**
Balance at 31 December 2017	-	31 589	9 159	30 445	1 522	973	-	73 688
Net book value								
Balance at 31 December 2017	1 003	178 516	27 047	70 294	782	246	56 752	334 640

	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

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

As at 31 December 2017 and 31 December 2016 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 2017	31 December 2016
Buildings and structures	32 566	35 377
Machinery and equipment	945	1 160
Equipment for biological assets	22 079	23 784
Land	986	1 025
	56 576	61 346

As at 31 December 2017 and 31 December 2016 the net book value of property, plant and equipment which were acquired under finance leases amounted to nil and USD 28 thousand respectively.

6. Biological assets

	31 December 2017	31 December 2016
Non-current biological assets		
Replacement poultry	3 732	14 273
	3 732	14 273
Current biological assets		
Commercial poultry	16 160	7 755
	16 160	7 755
Total	19 892	22 028

a) Commercial poultry and replacement poultry were as follows:

	31 December 2017		31 December 2016	
	Number, thousand head	Fair value	Number, thousand head	Fair value
Loman	9 430	18 605	13 356	21 879
Novogen	99	1 287	-	-
Decalb	-	-	125	94
Tetra	-	-	77	55
	9 529	19 892	13 558	22 028

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

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
Balance at 1 January 2017	22 028
Acquisitions	40 926
Increase in value as a result of increase in weight/number	111 170
Net change in fair value	(3 108)
Decrease in value resulting from assets disposal	(36 754)
Effect from translation into presentation currency	(607)
Decrease in value resulting from hens slaughtering	(113 535)
Other changes	(228)
Balance at 31 December 2017	19 892

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 24,66% prevailing as at 31 December 2017 was applied (for the year ended 31 December 2016: 26,13%).

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

Regulatory and environmental risk

The Group is subject to laws and regulations 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 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
VAT government bonds	3 712	7 664
Discount VAT government bonds	(872)	(1 964)
	2 840	5 700

	31 December 2017	31 December 2016
Coupon receivable	260	409

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

8. Taxes recoverable and prepaid

Taxes recoverable and prepaid as at 31 December 2017 and 31 December 2016 were as follows:

	Note	31 December 2017	31 December 2016
VAT settlements	a)	17 807	8 403
Other taxes prepaid		42	76
		17 849	8 479

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 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Raw and basic materials	13 952	20 103
Work-in-progress	361	281
Agricultural produce	2 292	1 685
Finished goods	30 126	22 475
Package and packing materials	5 366	5 546
Goods for resale	1 357	10 070
Other inventories	2 847	1 984
	56 301	62 144

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

The Group produced shell eggs in the quantity of 2 399 489 108 (2016: 2 495 757 032 items) which have fair value amounted to USD 105 562 thousand (2016: USD 131 891 thousand).

10. Trade accounts receivable, net

Trade accounts reveivable as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Trade receivables-gross	92 113	91 115
Provision for doubtful debts	(46 737)	(50 487)
	45 376	40 628

As at 31 December 2017 an amount of USD 10 842 thousand or 23,9% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2016–see note 36).

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

The exposure of the Group to credit risk and impairment losses in relation to trade accounts receivable is reported in note 36 to the consolidated financial statements.

11. Prepayments and other current assets, net

Prepayments and other current assets as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Prepayments	2 689	9 590
Provision for doubtful debts	(1 812)	(4 139)
Other non-trade accounts receivable	4 349	5 129
Current portion of VAT bonds	3 713	3 832
	8 939	14 412

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 36 to the consolidated financial statements.

12. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Cash in banks	18 241	12 570
Cash in hand	1	-
Cash and cash equivalents represented in consolidated statement of cash flows	**18 242**	**12 570**

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 36 to the consolidated financial statements.

13. Share capital

	31 December 2017		31 December 2016	
	Number of shares	Share capital, USD ths	Number of shares	Share capital, USD ths
Authorised				
Ordinary shares Euro 0,10 each	6 500 000	908	6 500 000	908
Issued and fully paid				
Balance at 31 December	**6 387 185**	**836**	**6 387 185**	**836**

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

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

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

14. Long-term loans

Long-term loans as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Long-term bank loans in national currency	46 479	47 976
Long-term bank loans in foreign currency	87 628	76 756
Total loans	134 107	124 732
Commodity credit	316	327
	134 423	125 059
Current portion of non-current liabilities for bank loans in national currency	(4 045)	(806)
Current portion of non-current liabilities for bank loans in foreign currency	(87 628)	(30 329)
	42 750	93 924

a) As at 31 December 2017 and 31 December 2016 the long-term bank loans by maturities were as follows:

	31 December 2017	31 December 2016
Less than one year	91 673	31 134
From 1 to 2 years	6 528	15 998
From 2 to 3 years	6 528	17 038
From 3 to 4 years	6 528	14 507
From 4 to 5 years	22 848	14 302
Over 5 years	-	31 753
	134 106	124 732

b) As at 31 December 2017 and 31 December 2016 the long-term bank loans by currencies were as follows:

	31 December 2017	31 December 2016
Long-term bank loans in UAH	46 478	47 976
Long-term bank loans in EUR	87 628	76 756
	134 106	124 732

c) As at 31 December 2017 and 31 December 2016 the interest rates for long-term bank loans were as follows:

	31 December 2017	31 December 2016
Long-term bank loans denominated in UAH	12,5%-18%	12,5%-18%
Long-term bank loans in EUR	1,5%+EURIBOR-2,7%+EURIBOR	1,5%+EURIBOR-2,7%+EURIBOR

As at the end of the reporting period the Group had overdue payments for some of the long-term borrowings and was not in compliance with certain covenants. As a result, the relevant portion was classified as current until finalisation of the Group's Management negotiations with the banks with the expectation to agree on the restructuring of debt with favourable conditions for both parties.

d) Commodity credit in the amount of USD 316 thousand (2016: USD 327 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 36 to the consolidated financial statements.

15. Bond liabilities

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

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

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

- *Maturity:* Amended to 29 October 2018, 100% of principal to be redeemed at this date.
- *Coupon:* The 5% coupon will be payable on 29 October 2015 (representing the semi-annual payment of the existing 10% coupon), with 2% to be paid in cash as a regular coupon payment and 3% to be paid as payment in kind

("PIK"). The 10% coupon will be payable semi-annually in arrears on 29 April and 29 October of each year, commencing 29 April 2016, but subject to the following PIK and cash payment provisions:

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

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

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

The Company continues to be in discussions with various creditor groups.

In March 2017 the Management of the Company has decided to commence the restructuring process of its Bonds and is currently engaged in negotiations with bondholders. The primary reasons which triggered this process are outlined below:

- weak micro-economic and macro-economic conditions in Ukraine, the Group's primary jurisdiction of operation and principal market, which adversely impacted 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;
- 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.

Currently the Company defaulted in paying the interest due under the Note.

The rectructuring process will help the Company continue to maintain its assets and operations. Going forward the Company is planning to concentrate on operations while prudently managing liquidity and servicing it's existing debt portfolio.

The exposure of the Group to interest rate risk and liquidity risk in relation to bond liabilities is reported in note 36 to the consolidated financial statements.

16. Securities

Long-term loans (Note 14) as at 31 December 2017 and 31 December 2016 were secured on assets as follows:

	31 December 2017	31 December 2016
Buildings and structures	32 566	35 377
Machinery and equipment	945	1 160
Equipment for biological assets	22 079	23 784
Land	986	1 025
Total	56 576	61 346

As at 31 December 2017 and 31 December 2016 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.

17. Current portion of non-current financial liabilities

The current portion of non-current financial liabilities as at 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Trade and other payables		
Deferred income (current portion)	87	89
Financial liabilities		
Current portion of non-current liabilities for bank loans in foreign currency	87 628	30 329
Current portion of non-current liabilities for bank loans in national currency	4 045	806
	91 760	31 224

The exposure of the Group to liquidity risk in relation to non-current financial liability is reported in note 36 to the consolidated financial statements.

18. 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 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Influence of temporary differences on deferred tax assets		
Property, plant and equipment, non-current assets	6 103	3 755
Provisions	2 255	1 558
Total deferred tax assets	8 358	5 313
Influence of temporary differences on deferred tax liabilities		
Deferred expenses	(4)	(1)
Total deferred tax liabilities	(4)	(1)
Net deferred tax assets	8 354	5 312

	31 December 2017	31 December 2016
Total deferred tax assets	8 662	5 663
Total deferred tax liabilities	(308)	(351)
Net deferred tax assets	8 354	5 312

Principal components of income tax expense

As at 31 December 2017 and 31 December 2016 the rate of income tax in Ukraine was equal to 18%.

	31 December 2017	31 December 2016
Current income tax	(74)	(124)
Deferred tax asset	3 385	3 445
Income tax credit for the year	3 311	3 321

Reconciliation of deferred tax liabilities

	31 December 2017	31 December 2016
Balance as at 1 January	5 312	2 351
Deferred tax credit	3 385	3 445
Effect of translation into presentation currency	(343)	(484)
Balance as at 31 December	8 354	5 312

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

	31 December 2017	31 December 2016
Accounting loss before tax	(10 780)	(59 957)
Less accounting profit of the companies being fixed agricultural tax payers	2 272	15 495
	(8 508)	(44 462)
Accounting loss of the companies being income tax payers at the rate 12,5%	(3 930)	(41 370)
Accounting loss of the companies being income tax payers at the rate 18%	(4 578)	(3 092)
	(8 508)	(44 462)
Income tax, taxable at the rate of 12,5%	(491)	(5 171)
Income tax, taxable at the rate of 18%	(824)	(557)
Tax effect of allowances and income not subject to tax	4 626	9 049
Tax as per consolidated statement of profit or loss and other comprehensive income - credit	3 311	3 321

As at 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/ 1 January 2017	**41**
Income tax accrued for the year	(74)
Income tax paid for the year	46
Effect of translation into presentation currency	22
As at 31 December 2017	**35**

19. Trade payables

Trade payables as at 31 December 2017 and 31 December 2016 were as follows:

	Note	31 December 2017	31 December 2016
Trade payables	a)	2 262	2 955
Short-term notes issued		36	107
		2 298	3 062

a) As at 31 December 2017 and 31 December 2016 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 36 to the consolidated financial statements.

20. Other accounts payable

Other accounts payable as at 31 December 2017 and 31 December 2016 were as follows:

	Note	31 December 2017	31 December 2016
Accrued expenses for future employee benefits		441	280
Other accrued expenses		214	208
Wages and salaries and related taxes liabilities		809	512
Other taxes and compulsory payments liabilities	a)	154	430
Accounts payable for property, plant and equipment		124	214
Advances received from customers	b)	198	389
Interest payable on loans		10 955	6 042
Accrued coupon on bonds		14 249	1 919
Other payables	c)	1 844	2 444
		28 989	**12 438**

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 36 to the consolidated financial statements.

21. Loss from operating activities

Loss from operating activities is stated after (charging)/crediting the following items:

	Note	for the year ended	
		31 December 2017	31 December 2016
Depreciation of property, plant and equipment	5	(15 411)	(15 659)
(Loss)/profit on disposal of non current assets	27	(30)	150
Bad Debt recovered	27	4 488	-
Provisions for doubtful debts and amounts written off	27	-	(18 582)
Payroll and related expenses	31	(10 778)	(7 785)
Independent auditors' remuneration for statutory audit of annual accounts		(362)	(603)

22. Revenue

Sales revenue for the year ended 31 December 2017 and 31 December 2016 was as follows:

	for the year ended	
	31 December 2017	31 December 2016
Revenue from finished goods	117 699	140 761
Revenue from goods sold	9 623	50 145
Revenue from services rendered	565	398
	127 887	**191 304**

For the year ended 31 December 2017 USD 28 064 thousand (2016: USD 45 119 thousand) or 21,9% (2016: 23,6%) from the Group's revenue refers to the sales transactions carried out with one of the Group's clients (note 36).

23. Cost of sales

Cost of sales for the year ended 31 December 2017 and 31December 2016 was as follows:

	Note	for the year ended	
		31 December 2017	31 December 2016
Cost of finished goods sold	24	(124 961)	(127 930)
Cost of goods sold		(9 561)	(47 860)
Cost of services rendered		(394)	(85)
		(134 916)	**(175 875)**

24. Cost of sales by elements

The cost of finished goods sold (Note 23) for the year ended 31 December 2017 and 31 December 2016 was as follows:

	Note	for the year ended	
		31 December 2017	31 December 2016
Raw materials		(97 630)	(101 568)
Payroll of production personnel and		(5 945)	(3 705)
related taxes	31	(15 198)	(15 393)
Depreciation			
Services provided by third parties		(6 086)	(7 173)
Other expenses		(102)	(91)
	23	**(124 961)**	**(127 930)**

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.

25. General administrative expenses

General administrative expenses for the year ended 31 December 2017 and 31 December 2016 were as follows:

	Note	for the year ended 31 December 2017	for the year ended 31 December 2016
Salaries and wages of administrative personnel	31	(4 436)	(3 641)
Services provided by third parties		(3 278)	(2 936)
Depreciation		(98)	(98)
Repairs and maintenance costs		(104)	(264)
Tax expenses, except for income tax		(520)	(316)
Material usage		(319)	(236)
Other expenses		(200)	(395)
		(8 955)	(7 886)

26. Distribution expenses

Distribution expenses for the year ended 31 December 2017 and 31 December 2016 were as follows:

	Note	for the year ended 31 December 2017	for the year ended 31 December 2016
Salaries and wages of distribution personnel	31	(397)	(439)
Transport expenses		(4 290)	(4 332)
Depreciation		(115)	(165)
Services provided by third parties		(2 720)	(3 492)
Packing materials		(69)	(47)
Repairs and maintenance costs		(4)	(5)
Other expenses		(151)	(78)
		(7 746)	(8 558)

27. Other operating income/(expenses)

Other operating income/(expenses) for the year ended 31 December 2017 and 31 December 2016 were as follows:

	for the year ended 31 December 2017	for the year ended 31 December 2016
Gain on disposal of current assets	31	14
(Loss)/income on disposal of non current assets	(30)	150
Impairment of current assets	(138)	(709)
Gain realised from writing-off of accounts payable	400	262
Foreign currency sale (loss)/income	(34)	(51)
Bad Debt recovered	4 488	-
Provision for doubtful debts and amounts written off	-	(18 582)
Fines, penalties recognized	(327)	(86)
Other (expense)/income	(586)	1 895
	3 804	(17 107)

28. Finance costs

Finance costs for the year ended 31 December 2017 and 31 December 2016 was as follows:

	for the year ended 31 December 2017	for the year ended 31 December 2016
Interest payable on loans	(8 682)	(7 945)
Total finance expenses on loans	**(8 682)**	**(7 945)**
Finance expenses on finance lease	-	(12)
Finance expenses on bonds	(22 645)	(21 241)
Other finance expenses	(2 372)	(2 082)
	(33 699)	(31 280)

29. Finance income

Finance income for the year ended 31 December 2017 and 31 December 2016 includes the interest income from VAT government bonds and placement of deposits, amounted to USD 1 982 thousand and USD 2 825 thousand respectively.

30. Government grants received

30.1 Income from government grants and incentives

Income from government grants and incentives received for the year ended 31 December 2017 and 31 December 2016 was as follows:

	Note	for the year ended 31 December 2017	for the year ended 31 December 2016
Amortization of deferred income on government grants	a)	91	98
Income from VAT government grants received	b)	19 151	-
		19 242	98

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 consoli dated 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.

b) *Income from VAT government grants received*
Since 1 January 2017, a new subsidy for distributing the government grants has been introduced for Ukrainian agricultural producers instead of the special VAT taxation treatment which was in force until 2016. The main objective is that the Goverment returns part of the VAT paid by agricultural producers to the Govenment. The distribution of the government grants will be implemented by State Treasury Service under a separate program of the Ministry of Agrarian Policy and Food.

30.2 Income from special VAT treatment

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. This benefit ceased on 31 December 2016 upon the introduction of the procedure of distributing the government grants as outlined in note 30.1 (b) above.

31. Payroll and related taxes

	for the year ended	
	31 December 2017	31 December 2016
Salary	(6 759)	(4 882)
Contributions to state funds	(4 019)	(2 903)
	(10 778)	(7 785)

	Note	for the year ended	
		31 December 2017	31 December 2016
Payroll of production personnel and related taxes	24	(5 945)	(3 705)
Salaries and wages of administrative personnel	25	(4 436)	(3 641)
Salaries and wages of distribution personnel	26	(397)	(439)
		(10 778)	(7 785)

	for the year ended	
	31 December 2017	31 December 2016
Average number of employees, persons	2012	2036

32. 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 2017 and 31 December 2016 were as follows:

	for the year ended	
	31 December 2017	31 December 2016
Salary	1 131	919
Contributions to state funds	138	118
	1 269	1 037

Outstanding amounts of the Group for transactions with related parties as at 31 December 2017 and 31 December 2016 were as follows:

	Outstanding balances with related parties as at	
	31 December 2017	31 December 2016
Prepayments and other current assets, net		
D. Companies in which activities are significantly influenced by the Group's owners	3 298	5 499
	3 298	5 499
Trade accounts receivable		
D. Companies in which activities are significantly influenced by the Group's owners	11 625	154
	11 625	154
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
	-	3
Other current liabilities		
D. Companies in which activities are significantly influenced by the Group's owners	2	2
	2	2

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 2017 Prepayments and other current assets, (net) include unpaid contribution to the share capital of LLC Imperovo Foods in the amount of USD 2 944 thousand (31 December 2016: USD 3 069 thousand).

The Group's transactions with related parties for the year ended 31 December 2017 and 31 December 2016 were as follows:

	Transactions with related parties for the year ended	
	31 December 2017	31 December 2016
Revenue		
D. Companies in which activities are significantly influenced by the Group's owners	19 239	52 820
	19 239	52 820
General administrative expenses		
D. Companies in which activities are significantly influenced by the Group's owners	(13)	(12)
	(13)	(12)
Distribution expenses		
D. Companies in which activities are significantly influenced by the Group's owners	(4 602)	(4 870)
	(4 602)	(4 870)
Other operating income/(expenses), net		
D. Companies in which activities are significantly influenced by the Group's owners	107	938
	107	938

For the year ended 31 December 2017 and 31 December 2016 purchases of goods, transportation, slaughtering and rent services were provided to the Group by related parties in the amount of USD 2 293 thousand and USD 60 334 thousand respectively. All those goods and services were bought and provided on market terms.

33. 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 2017 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	176 191	63 439	118 853	14 918	13 044	-	386 445
Intra-group elimination	(94 066)	(46 467)	(115 330)	(876)	(1 819)	-	(258 558)
Revenue from external buyers	82 125	16 972	3 523	14 042	11 225	-	127 887
Income from revaluation of biological assets at fair value	2 024	(5 132)	-	-	-	-	(3 108)
Other operating expenses	(2 972)	185	17	6 847	(273)	-	3 804
Income from government grants and incentives	19 181	60	-	-	-	-	19 242
OPERATING PROFIT/(LOSS)	6 783	(6 498)	(2 067)	2 426	(4 436)	-	(3 792)
Finance income	174	-	-	1 805	3	-	1 982
Finance costs,	(148)	-	-	(6 229)	(27 321)	-	(33 699)
including:							
Interest payable on loans	(148)	-	-	(6 161)	(2 373)	-	(8 682)
Income tax (expense)/credit	(2)	-	(12)	3 318	7	-	3 311
NET (LOSS)/PROFIT FOR THE YEAR	6 970	(6 642)	(2 079)	914	(6 632)	-	(7 469)
TOTAL ASSETS	2 163 470	51 914	198 866	733 538	886 874	(3 521 881)	512 781
Capitalised expenses	949	14	-	231	301		1 495
Depreciation	9 280	2 374	617	444	2 696	-	15 411
TOTAL LIABILITIES	1 651 666	3 100	230 894	534 323	390 751	(2 382 474)	428 260

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)

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Income from government grants and incentives	96	2	-	-	-	-	98
OPERATING PROFIT/(LOSS)	(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

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 year ended		Non-current assets As at	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Ukraine	90 037	79 439	349 879	383 462
Middle East and North Africa	23 878	33 835	-	-
Far East	3 555	37 144	-	-
Central and West Africa	2 205	165	-	-
Europe	8 153	34 716	-	-
South Asia	61	6 005	-	-
Total	127 887	191 304	349 879	383 462

34. Loss per share

Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2017 and 31 December 2016 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 2017	31 December 2016
Loss attributable to the owners of the Company:		
(in USD thousands)		
Loss for the year attributable to the owners of the Company	(6 734)	(56 978)

	for the year ended	
	31 December 2017	31 December 2016
Weighted average number of shares:		
Weighted average number of ordinary shares at 30 June	6 387 185	6 387 185
Loss per share (USD)	(1)	(9)

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.

35. Contingent and contractual liabilities

Ukrainian business and economic environment

The economic situation in Ukraine has significantly deteriorated since 2014 after the annexation of Crimean peninsula by the Russian Federation (further – the RF), the event that was recognized by neither Ukraine nor the World community. This development has lead to substantial deterioration of relations between Ukraine and the RF. The Crimea annexation has spread the pressure throughout the Eastern regions of Ukraine (mostly Donetsk Oblast' and Lugansk Oblast'). In May 2014, the social unrest fueled by the RF, has grown into a military conflict between self-proclaimed Donetsk and Lugansk People's Republics and Ukrainian troops. The military conflict has not been resolved yet. The Donetsk Oblast' and Lugansk Oblast' are partly controlled by self-proclaimed Donetsk and Lugansk People's Republics. Ukrainian authorities are incapable of enforcing the law on these territories.

These events have led to the disappearance of economic links between Ukraine and the RF, the key export destination for many Ukrainian industries. Ukraine has lost control over large mining companies concentrated in the East of the country, which significantly decreased the inflow of foreign currency. Eventually, the national GDP has dropped, public finances have eroded, the national currency has suffered severe devaluation and the credit rating of the sovereign debt has continued to deteriorate. The newly elected Government of Ukraine had no financial power to avoid the economic downfall in years 2014-2015. Minimal international reserves and exhausted government accounts have forced the government to introduce administrative anti-crisis tools. The National Bank of Ukraine has introduced currency restrictions: conversion limits, the requirement to convert 75% of foreign currency revenue into national currency, abroad dividend payment ban, ban on early repayment of foreign loans, cash withdrawal limitations. Such restrictions have limited the abilities of Ukrainian companies and banks to lend and borrow money on domestic and international markets.

It is hard to foresee the eventual outcome of the conflict with the RF and the Ukrainian economic crisis. In case of resumption of hostilities in the East of Ukraine, the government will be forced to increase military spending and face another period of economic turbulence. To date, we can conclude the Ukrainian government has managed to stabilize the economy. In years 2016-2017 the GDP growth was 2,3% and 2% respectfully (the best growth indicator since 2012). The administrative restrictions are being gradually lifted. The law on currency regulation enters into force in 2018; it is designed to liberalize the currency market and stimulate foreign economic activities. Despite the floating exchange rate introduced on the IMF's demand, national currency is rather stable. There are signs of recovery from deep economic crisis of years 2014-2015.

The management of the Group takes all the necessary steps to support the financial stability of the Group in current circumstances. Despite the first signs of economic recovery, we are still suffering from significant devaluation of national currency. The value of UAH has decreased by 3,5 times since the beginning of the military conflict in early 2014. This was followed by the drop in the demand on domestic market ignited by the deterioration of purchasing power of Ukrainians.

That is why we look to the future with cautious optimism. We understand that it will take several years to recover from crisis. This consolidated financial report reflects current Management's view on the influence of the Ukrainian business environment on the financial standing of the Group. The future developments in Ukrainian economy can differ from the Management's expectations. This financial report was not adjusted for any 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 2017, the Tax Code also changed 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.

As from 1 January 2017, the special VAT regime for agricultural producers was completely abolished. Thus all subjects of special VAT regime have switched to standard VAT terms.

While the Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorized for issue management was in the process of assessing its effects of its adoption on the operations of the Group.

Pension and other liabilities

Most of the Group's employees receive pension benefits from the Pension Fund, Ukrainian state organization, in accordance with the regulations and laws of Ukraine. Group is obliged to deduct a certain percentage of salaries to the Pension Fund to pay pensions.

As at 31 December 2017 and 31 December 2016 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.

36. Financial risk management

The Group has exposure to the following risks arising from the use of financial instruments:

a) credit risk;
b) liquidity risk;
c) market risk;
d) livestock disease risk.

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group is not a finance company, thus it uses financial instruments as may be necessary in order to obtain finance for its activities, not for the purpose of receiving income. In the process of its activities the Group uses the following financial instruments: cash and cash equivalents, loans to and from related parties, accounts receivable, bonds, bank loans, finance leases and accounts payable.

The Group is exposed to the following risks resulting from use of financial instruments: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk of fair value). This explanation contains information relating to the Group's exposure to each of the risk types mentioned above, Group's objectives, its policy and procedures of these risks measurement and management.

Additional disclosures of quantitative information are presented in many other sections of these consolidated financial statements, including:

- information on finance income and costs is disclosed in Notes 28, 29 (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 19, 20;
- information on significant terms of borrowings and loans granting is disclosed in Note 14;
- 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 2017 and 31 December 2016 was presented as follows:

Financial assets	31 December 2017	31 December 2016
Cash and cash equivalents	18 242	12 570
Held to maturity investments	6 553	9 532
Trade accounts receivable	45 376	40 628
Total	**70 171**	**62 730**

The table below shows an analysis of the Group's bank deposit by the credit rating of the bank in which they are held:

Bank group based on credit ratings by Moody's	31 December 2017	31 December 2016
A1	7 300	9 452
Without credit rating	10 942	3 118
	18 242	**12 570**

The cash and cash equivalents without credit rating are held with financial institutions in Ukraine with the majority of them held in a financial institution which is under administration. The rate of held to maturity investments is Caa3 using the credit rate of government of Ukraine is per Moody's Rating Agency.

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during the year ended 31 December 2017 and 2016 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 2017 USD 28 064 thousand or 21,9% from the Group's revenue refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2017 USD 10 842 thousand or 23,9% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

For the year ended 31 December 2016 USD 45 119 thousand or 23,6% from the Group's revenue is 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.

Trade receivables as at 31 December 2017 and 31 December 2016 by dates of origin were presented as follows:

31 December 2017	1-30 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	14 307	9 335	9 623	2 825	1 176	8 111	-	**45 376**

31 December 2016	1-30 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**

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 2017	31 December 2016
As at 1 January	(54 626)	(42 273)
Bad Debt recovered	4 488	-
Provision for doubtful debts and amounts written off	-	(18 582)
Effect of translation into presentation currency	1 589	6 229
As at 31 December	**(48 549)**	**(54 626)**

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 2017

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	(168 983)	(87 628)	(12 536)	(68 727)	(92)
Long-term bond liabilities	(267 633)	-	(267 633)	-	-
Trade payables	(2 298)	(2 298)	-	-	-
Dividends payable	(29 542)	-	-	(29 542)	-
Interest payable on loans	(10 955)	-	(10 955)	-	-
Accrued coupon on bonds	(14 249)	-	(14 249)	-	-
Other payables	(1 844)	-	(1 844)	-	-
	(495 504)	(89 926)	(307 217)	(98 269)	(92)

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)	-
Interest payable on loans	(6 042)	-	(6 042)	-	-
Accrued coupon on bonds	(1 919)	-	(1 919)	-	-
Other payables	(2 444)	-	(2 444)	-	-
	(478 469)	(3 062)	(59 919)	(379 290)	(36 199)

c) Market risk

Market risk is the risk of negative influence of changes in market prices, such as foreign exchange rates and interest rates, on revenue position of the Group or on the value of the Group's available financial instruments.

The objective of market risk management provides control over the Group's exposure to market risk, as well as keeping its level within reasonable limits. Description of the Group's exposure to such market components as currency risk and interest rate risk, is given below.

i) Foreign currency risk

Foreign currency risk which represents a part of market risk is the risk of change in the value of financial instruments due to changes in foreign exchange rates.

Management does not use derivative financial instruments to hedge foreign currency risks and does not follow the official policy for distribution of risks between liabilities in one or another currency. However, in the period of receiving new borrowings and loans, management uses its own estimates to take the decision as for which currency of denomination will be more favourable for the Group during the expected period until maturity.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in functional currency (UAH) as at 31 December 2017 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD	EUR	TOTAL
Trade payables	269	860	1 128
Cash and cash equivalents	(20)	-	(20)
Trade accounts receivable	(13 123)	(2 039)	(15 162)
Other payables	18	-	18
Net exposure to foreign currency risk	(12 856)	(1 180)	(14 036)

The Company's exposure to foreign currency risk and the functional currency (EUR) as at 31 December 2017 based on carrying amounts was as follows:

(in conversion to USD thousand)	USD
Short-term bond liabilities	231 612
Dividends payable	29 542
Other accounts payable	110
Cash and cash equivalents	(6 624)
Accrued coupon on bonds	14 249
Net exposure to foreign currency risk	268 889

The Group's exposure to foreign currency risk and the amount in local currency 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

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 2017			
USD	20%	2 571	2 571
EUR	15%	177	177

Effect in USD thousand:	Increase in currency rate against EUR	Effect on profit before tax	Effect on equity
31 December 2017			
USD	5%	(13 444)	(13 444)

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			
USD	5%	(12 060)	(12 060)

ii) Interest rate risk

Interest rate risk is connected with a possibility of changes in value of financial instruments resulting from changes in interest rates.

At present, the Group's approach to limitation of interest rate risk consists of borrowings at fixed interest rates.

Structure of interest rate risk

As at 31 December 2017 and 31 December 2016 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	31 December 2017	31 December 2016
Instruments with fixed interest rate		
Financial assets	6 553	9 532
Financial liabilities	(46 478)	(266 990)
Instruments with variable interest rate		
Financial liabilities	(87 628)	(76 756)

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 2017 and 31 December 2016 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 2017		
EURIBOR	5%	7
EURIBOR	-5%	(7)
31 December 2016		
EURIBOR	5%	4
EURIBOR	-5%	(4)

The effect of interest rate sensitivity on owners' equity is equal to that on the consolidated statement of comprehensive income.

Such financial instruments as cash and cash equivalents, trade accounts receivable, financial assistance issued, interest receivable for deposits, prepayment for bonds, other non trading accounts receivable are not included in the table given below, since possible effect of changes in interest rate risk (discount rates) under these financial instruments is not material.

Capital management

The Group's management follows the policy of providing the firm capital base which allows supporting the trust of investors, creditors and market and ensuring future business development.

In relation to capital management the Group's objectives are as follows: maintaining the Group's ability to adhere to the going concern principle in order to provide income for owners and benefits to other interested parties, and also maintaining the optimal capital structure with the purpose of its cost reduction.

To manage capital, the Group's management, above all, uses the calculations of the financial leverage coefficient (ratio of leverage ratio) and the ratio between net debt and EBITDA.

Financial leverage is calculated as a ratio between net debt and total amount of capital. Net debt is calculated as cumulative borrowings net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the statement of financial position plus the amount of net debt.

This ratio measures net debt as a proportion of the capital of the Group, i.e. it correlates the debt with total equity and shows whether the Group is able to pay the amount of outstanding debts. An increase in this coefficient indicates an increase in borrowings relative to the total amount of the Group's capital. Monitoring this indicator is necessary to keep the optimal correlation between own funds and borrowings of the Group in order to avoid problems from over leverage.

Financial leverage ratio calculation

For the ratio of net debt to EBITDA, the calculation of net debt is as above. EBITDA is an indicator of income before taxes, interest depreciation and amortisation. It is useful for the Group's financial analysis, since the Group's activity is connected with long-term investments in property, plant and equipment. EBITDA does not include depreciation, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

The ratio of net debt to EBITDA gives an indication of whether income obtained from operating activities is sufficient to meet the Group's liabilities.

As at 31 December 2017 and 31 December 2016 the Group's financial leverage coefficient was 80,4% and 70,5% respectively.

	Carrying value	
	31 December 2017	31 December 2016
Long-term loans	42 750	93 924
Current portion of long-term loans	91 673	31 135
Long-term finance lease (including VAT)	-	3
Bond liabilities	231 612	219 014
Total debt	**366 035**	**344 076**
Cash and cash equivalents	(18 242)	(12 570)
Net debt	**347 793**	**331 506**
Share capital	836	836
Share premium	201 164	201 164
Capital contribution reserve	115 858	115 858
Retained earnings	857 723	864 457
Foreign currency translation reserve	(1 099 825)	(1 053 923)
Non-controlling interests	8 765	10 418
Total equity	**84 521**	**138 810**
Total amount of equity and net debt	**432 314**	**470 316**
Financial leverage coefficient	**80,4%**	**70,5%**

For the year ended 31 December 2017 and 31 December 2016 ratio of net debt to EBITDA amounted to:

	for the year ended	
	31 December 2017	31 December 2016
LOSS FOR THE YEAR	(7 469)	(56 636)
Income tax credit	(3 311)	(3 321)
Finance income	(1 982)	(2 825)
Finance expenses	33 699	31 280
Impairment of current assets	138	709
(Profit)/losses on exchange	(24 729)	16 622
EBIT (earnings before interest and income tax)	**(3 654)**	**(14 171)**
Depreciation	15 411	15 657
EBITDA (earnings before interest, income tax, depreciation)	**11 757**	**1 486**
Net debt at the year end	347 793	331 506
Net debt at the year end / EBITDA	**29,58**	**223,09**

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.

37. Fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

31 December 2017	Level 1	Level 2	Level 3	Total
Biological Assets	-	-	19 892	19 892

31 December 2016	Level 1	Level 2	Level 3	Total
Biological Assets	-	-	22 028	22 028

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 31 December 2017.

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 2017	31 December 2016
Discount rate	24,66%	26,13%
Inflation rate	113,70%	112,40%

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 2017		
Discount rate	-2,50%	265
Discount rate	2,50%	(261)
Inflation rate	1,75%	1 058
Inflation rate	-1,75%	(1 058)
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)

There were no transfers to/from Level 3 of the fair value hierarchy during the year ended 31 December 2017.

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 2017: Loss USD 3 108 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:

31 December 2017	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial Assets					
Cash and cash equivalents	-	18 242	-	18 242	18 242
Held to maturity investments	7 101	-	-	7 101	6 553
Trade and other receivables	-	-	45 376	45 376	45 376
Financial Liabilities					
Trade payables	-	-	2 298	2 298	2 298
Bank loans	-	134 106	-	134 106	134 106
Short-term bond liabilities	49 500	-	-	49 500	231 612

31 December 2016	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
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
Short-term bond liabilities	63 988			63 988	219 014

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 2017, the following methods and assumptions, which remained the same as the prior year, were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents - the fair value is estimated to be the same as the carrying value for these short-term financial instruments.

Held to maturity investments - the fair value of held to maturity investments are measured using the available quoted market prices.

Trade and other accounts receivable, financial assistance issued - the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed for reflection of credit risk influence.

Trade and other accounts payable - the fair value is estimated to be the same as the carrying value for trade and other accounts payable.

Application of the effective interest rate method for calculating carrying value of short-term accounts receivable, interest free loans granted and received and accounts payable does not significantly influence the relevant rates in the consolidated financial information of the Group.

Short-term and long-term bank loans, finance lease liabilities, short-term bonds issued - the fair value of short-term and long-term bank loans, finance lease liabilities, short-term bonds issued is estimated to approximate the total carrying value as the nominal interest rate of long-term bank loans is approximately tied to the market rate concerning bank loans with similar credit risk rate and repayment period at the reporting period.

Bonds issued - the fair value of bonds issued is measured using the available quoted market prices from the relevant stock exchange which the bonds are listed.

As at 31 December 2017 the fair value of the above financial instruments approximated to their carrying amount besides short-term bonds whose fair value was USD 49 500 thousand (long-term bonds 31 December 2016: USD 63 988 thousand).

38. Risks related to the Group's operating environment in Ukraine

Ukraine is still involved in the military conflict with pro-Russian terrorists and Russian troops. As a result Ukraine is in a state of economic war.

During the conflict (2014-2017) Ukraine faced the below mentioned consequences: inability to attract investment, capital outflow, negative trade balance and national currency devaluation. This inevitably led to lower living standards and decrease in purchasing power of the population.

These events have affected the activities of the Group. Three companies located on the Crimean peninsula are beyond the control of the Group due to annexation of the peninsula, as follows: LLC Yuzhnaya - Holding, SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding, and PPB LLC Ptytsecompleks. The companies located on the territory of the Lugansk and Donetsk regions are under control of the pro-Russian terrorists, as follows: PJSC Ptakhohospodarstvo Chervonyi Prapor, SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo Chervoniy Prapor, PSPC Interbusiness and PJSC Vuhlehirskyi Eksperementalnyi Kombikormovyi Zavod. The Group has lost the control over these companies and recognized the loss on impairment of these assets in 2014. In addition, the Group has lost the share of the market (Crimea accounted for 5%, Lugansk and Donetsk regions – for 15% of Ukrainian consumer market).

Challenges facing the Group:

- Decline in consumer demand in Ukraine due to lower purchasing power of population and increase in household egg production.
- Increase in cost of eggs produced nominated in UAH as imported materials are used in production.
- Substantial decrease in margin due to increase in cost of sales of egg (USD 0,05 per 1 egg) while no relevant increase in prices was observed (due to decline in demand).
- Decrease in prices on traditional for the Group foreign markets and decline in sales volumes. The latter was caused by the ban imposed on export of poultry products from Ukraine due to Avian influenza outbreaks.

The Group seeks to retain its assets and market position both on domestic and international markets.

Despite hard times in the history of the Group, we look forward to positive developments in the coming years. Ukraine is facing painful yet substantial and necessary reforms. The government has successfully implemented the banking reform, introduced several important changes in energy sector, created anticorruption agencies, launched medical and pension reforms, we also saw tax cuts and new administrative approaches. The anticorruption court is expected to be established as a part of judicial reform. The administration reform aimed at decentralization is being gradually implemented, granting more executive and financial autonomy to local authorities. A number of global organizations is supporting the reforms. The political commitment of the government to carry out the reforms and international support inspire confidence Ukraine can not only overcome the crisis but also imply European values and regulations and become a part of Europe not only geographically but also legally. The reforms will eventually improve the living standards, which will have a positive effect on the Group activities. Moving towards the EU, the Group expects to sell not only egg products but also class (grade) A shell eggs on European markets in the near future.

39. Events after the reporting period

The Company and its advisors continue to be engaged in discussions with various groups in relation to its debt restructuring process which is a result of breach of covenants of its bonds and debt agreements with several banks.

Additionally, at the beginning of 2018 the Company was granted the EU approval to start exporting shell eggs in that region.

There were no further material events after the reporting period except the fact that while Management believes it is taking all necessary measures to maintain the sustainability of the business in the current circumstances, a further deteriorate of economic and political conditions in Ukraine could adversely affect the Group's results and financial position so that it is currently impossible to predict.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of Avangardco Investments Public Limited on 22 March 2018.