

ONE OF UKRAINE'S  
**LEADING**  
AGRO-INDUSTRIAL  
**COMPANIES**

**MHP**  
MYRONIVSKY HLIBOPRODUCT

Annual Report and Accounts 2016

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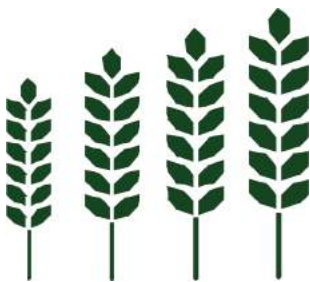
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# UNIQUE INTEGRATED BUSINESS MODEL

MHP business model —  
a key cost competitive  
advantage to its peers  
worldwide

*Less exposure to commodity  
cost volatility due to high  
level of vertical integration  
and diversification of sales*



## Grain

Own grain production satisfies 100%  
of the Company's corn and 24% of  
sunflower needs

**370,000**  
hectares of land  
under control in  
Ukraine



## Sunflower & Soya Proteins

Special technology for producing  
protein from sunflower seeds

Around  
**342,000**  
tonnes of sunflower  
oil, over **34,000**  
tonnes of soybean  
oil



## Fodder

100% of fodder produced at  
3 fodder mills. Grain stored  
specialised facilities

**3** fodder mills,  
own grain storage  
facilities



## Hatching Eggs \*

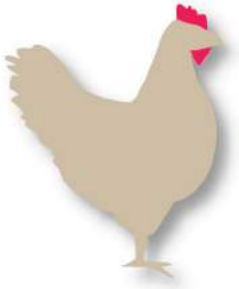
100% self-sufficient in hatching eggs

**2** breeding farms,  
around **420 mln\***  
hatching eggs  
per year

\* MHP is again self-sufficient in hatching eggs since July, 2016.

# UNIQUE INTEGRATED BUSINESS MODEL

Continued



## Poultry

100% of poultry processed at own facilities

**3** vertically integrated poultry complexes: from hatching to rearing and processing



## "Green" energy

100% efficiency in waste management

Growing self-sufficiency in energy to ensure lower costs, being environmentally friendly



## Convenience Food, Processed Meat and Sausages

Growing share of processed meat under brand "Bashchinsky"

Around **34,000** tonnes of sausages and cooked meat per year



## Distribution

100% of poultry delivered to customers within 24 hours

**100%** of poultry delivered to customers within 24 hours



## Sales

40% of poultry is sold via dedicated outlets

**2,012** dedicated franchise outlets



# ALTERNATIVE PERFORMANCE MEASURES

*MHP has included certain measures in this Director's Report that are not measures of performance under IFRS, including earnings before interest, taxation, depreciation and amortisation ("EBITDA") and last twelve months EBITDA ("LTM EBITDA") both at a consolidated and at a segment level.*

EBITDA, LTM EBITDA and Segment EBITDA are presented in this Director's report because directors consider them to be important supplemental measures of the Group's financial performance. Additionally, the directors believe these measures are frequently used by investors, securities analysts and other interested parties to evaluate the efficiency of the Group's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements.

We define EBITDA as profit for the year before income tax expense, finance costs, finance income, depreciation and amortisation expense, net after-tax exceptional and non-recurring items, foreign exchange loss, net, and other expenses, net. Depreciation and amortisation expense are components of both cost of sales and selling, general and administrative expenses in the consolidated financial statements.

LTM EBITDA defines as EBITDA for the prior 12 consecutive months ending on such date of measurement; LTM EBITDA for the year ended 31 December equals EBITDA.

The Group's segment measure in the consolidated financial statements is defined as "segment result" and represents operating profit by segment before unallocated corporate expenses, being the segment measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Within the Director's Report, we adjust the reported segment result for the amount of depreciation and amortisation per segment in order to present "Segment EBITDA" to external users, which we feel is a more commonly-used external metric familiar to investors.

EBITDA, LTM EBITDA and Segment EBITDA are measures of MHP's operating performance that are not required by, or presented in accordance with IFRS. EBITDA, LTM EBITDA and Segment EBITDA are not measurements of MHP's operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit, segment result or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of MHP's liquidity.

Such measures presented in this Annual Report may not be comparable to similarly titled measures of performance presented by other companies, and it should not be considered as substitutes for the information contained in the consolidated financial statements.

# ALTERNATIVE PERFORMANCE MEASURES

Continued

## Reconciliation of EBITDA is as follows:

	2016	2015
	US\$, mln	US\$, mln
Profit/(Loss) for the year	69	(113)
Income tax (benefit)/expense	(13)	(41)
Finance costs	107	106
Finance income	(2)	(3)
Loss on impairment of property, plant and equipment	1	-
Loss on disposal of subsidiaries	-	5
Depreciation and amortisation expense	99	89
Other expenses, net	9	3
Foreign exchange (gain)/loss, net	145	390
<b>EBITDA</b>	<b>415</b>	<b>436</b>

Segment results represent operating profit, as adjusted for unallocated corporate expenses, which is reconciled to segment EBITDA before unallocated expenses by adding back segment depreciation as illustrated in the following tables:

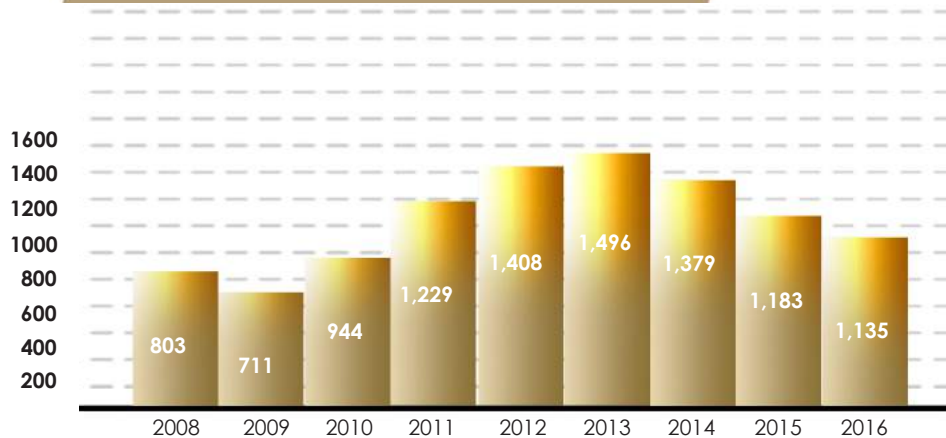
Year ended 31 December 2016					
US\$, mln	Poultry and related operations	Grain growing operations	Other agricultural operations	Eliminations	Consolidated
External sales	970	85	80	-	1,135
Sales between business segments	30	196	0	(226)	-
<b>Total revenue</b>	<b>1,000</b>	<b>281</b>	<b>80</b>	<b>(226)</b>	<b>1,135</b>
<b>Segment results</b>	<b>208</b>	<b>117</b>	<b>10</b>	<b>-</b>	<b>335</b>
<b>Add back</b>					
Depreciation and amortisation	61	33	3	-	97
<b>Segment EBITDA before unallocated expenses</b>	<b>269</b>	<b>150</b>	<b>13</b>	<b>-</b>	<b>432</b>

Year ended 31 December 2015					
US\$, mln	Poultry and related operations	Grain growing operations	Other agricultural operations	Eliminations	Consolidated
External sales	878	118	66	-	1,062
Sales between business segments	25	145	0	(170)	-
<b>Total revenue</b>	<b>903</b>	<b>263</b>	<b>66</b>	<b>(170)</b>	<b>1,062</b>
<b>Segment results</b>	<b>281</b>	<b>71</b>	<b>9</b>	<b>-</b>	<b>361</b>
<b>Add back</b>					
Depreciation and amortisation	62	24	2	-	88
<b>Segment EBITDA before unallocated expenses</b>	<b>343</b>	<b>95</b>	<b>11</b>	<b>-</b>	<b>449</b>

# KEY PERFORMANCE INDICATORS

## Revenue

US\$mIn



## Gross profit

US\$mIn



## EBITDA

US\$mIn



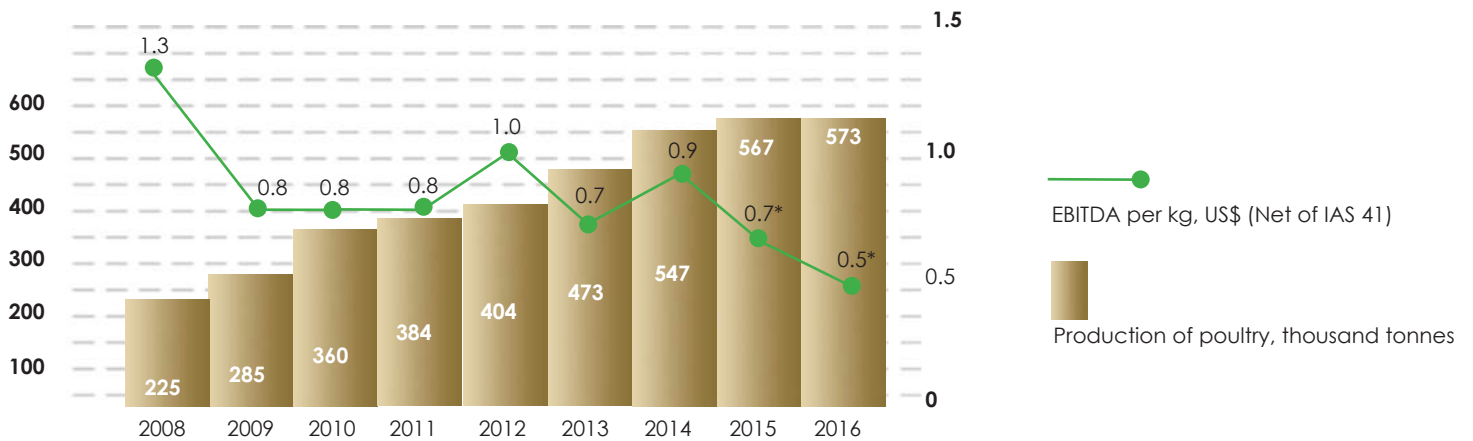
\* Without operations in Crimea.



# KEY PERFORMANCE INDICATORS BY SEGMENT

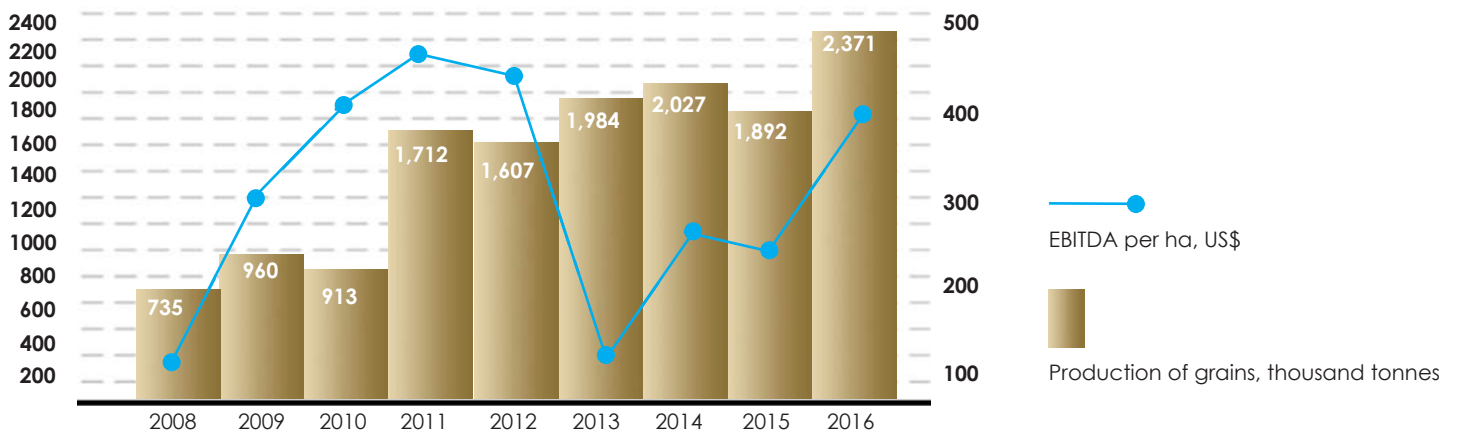
## Poultry Segment

US\$

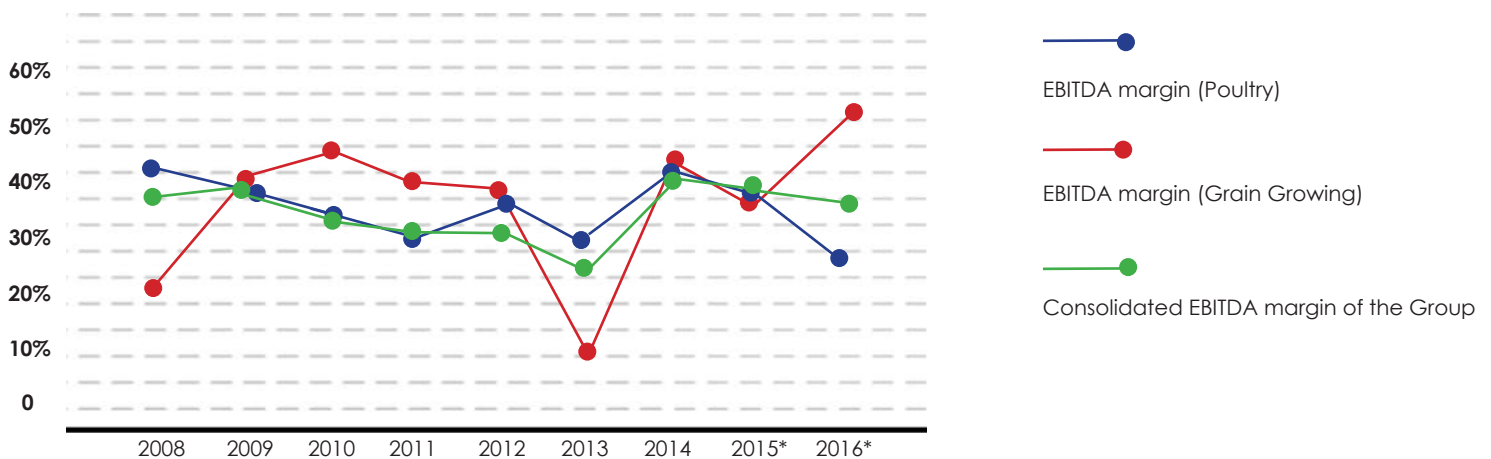


## Grain Growing Segment

US\$



## Consolidated and by Segment EBITDA



\* Without operations in Crimea.

# CHAIRMAN STATEMENT

## Financial and Operational Overview

**Another successful year  
for MHP in spite of the  
challenges faced by the  
global poultry industry in  
2016**



**Dr John C Rich, Chairman  
of the Board**

I am pleased to report our 9<sup>th</sup> set of annual results since the Company listed on the London Stock Exchange in 2008.

2016 was another successful year for MHP given the challenges presented by both the global poultry industry as well as the internal difficulties of Ukraine. Notwithstanding these difficulties, production volumes of poultry increased 10% year-on-year to 573,003 tonnes, with a revenue increase by 7% year-on-year.

MHP is a leading producer of chicken meat in Ukraine representing dominant and strong position. At the same time, MHP has been intensively developing its exports during the year. Export sales in 2016 increased by 52% year-on-year to 189,939 tonnes and now represent 36% of the Group's total poultry sales, an impressive performance.

We believe MHP to be the lowest cost volume producer of poultry globally, due to its unique vertical integration and innovative feed technology. This is supported by at or above benchmark performance in live poultry operations, record yields in the farming division in 2016 and the effect of higher production volumes being processed at the company's state-of-the-art facilities.

In July 2016, the Company achieved self-sufficiency in hatching eggs production following the closure of the Eastern Ukraine parent stock facility in August 2014 due to regional instability.

There was a temporary loss of access to EU markets between December 2016 and January 2017 due to an avian influenza outbreak elsewhere in Ukraine. While this was located in a village 500 km away from MHP's facilities, the system of compartmentation of disease locality had to be properly established between the local Ukraine and EU veterinary authorities before exports could be recommenced, resulting in a cessation of exports to the western EU for 7 weeks. This had only a marginal effect on EBITDA.

The company performed well financially in challenging market environments. While Ukraine prices increased 14% year-on-year following previous significant currency devaluations, the global poultry market traded at more recent historic lows. Notwithstanding this, the Company achieved an EBITDA of US\$ 415 million, with a 37% EBITDA margin, well above global peers. Net Debt to EBITDA ended the year at 2.6 times, with around 80% of total debt being long term. In early 2017, MHP sold its production activities in Crimea at fair value with the proceeds now being allocated to future investment by the Company.

# CHAIRMAN STATEMENT

*Continued*

## Strategy

The Company has a clear and consistent strategy. From a historical perspective, it has:

1. successfully built a position as a high quality, lowest cost producer;
2. successfully established and maintained a leading share of the Ukrainian domestic market;
3. invested in increasing capacity to service the ever expanding export market;
4. successfully established a growing international presence, with around 70 export market destinations now served;
5. with its vertical integration business model, delivered consistently strong profitability and operational cash generation;
6. paying meaningful annual dividend.

In recent developments, the commissioning of a processing facility in the Netherlands has enabled further development of distribution and sales in Western Europe. In addition, the Company has a clear strategy for the development of the MENA region, as part of which it has established a sales and distribution chain there in conjunction with a local partner.

The Company will continue its strategic aims of developing Western Europe and the EMENA regions which are logistically close to the Company's production base in Ukraine

**The board continues to take a strong lead in the development of the strategic business direction including potential M&A activity.**

## Corporate Governance

It was with regret that the Company's Chairman of 10 years, Charles Adriaenssen, stepped down in July 2016 due to family commitments. He was instrumental in driving the Company during its inauguration and establishment phase and steered the Company through its IPO in 2008 and the subsequent global financial crisis. The Board and Management wish to thank him for his strong commitment and invaluable service during this period.

The Board continues to take a strong lead in the development of the strategic business direction, including potential M&A activity. The Board welcomes recent recommendations from the US corporate regulatory authorities regarding continuing education for independent directors and is increasing its commitment to relevant professional development programs in 2017.

Following the retirement of Charles Adriaenssen, Dr John Rich was appointed Chairman of the Board and Chairman of the Nominations and Remunerations Committee.

The Board believes the directors possess diverse business experience in areas relevant to the Company's activities and future direction, and that the time commitment of directors is sufficient to provide appropriate governance and guidance on the strategic direction and operational effectiveness for the business.

In relation to the Nominations and Remunerations Committee activities, the Committee has considered the appropriate composition of the Board required to support the planned growth of the Company and has concluded that, in addition to replacing Dr John Rich as an independent NED, an additional independent NED should be appointed in due course to provide additional depth and diversity of experience. Currently the Committee is leading a search for the replacement of Dr John Rich as NED and during 2017 the Committee will undertake a full succession planning exercise for all senior roles in the Company.

# CHAIRMAN STATEMENT

*Continued*

## Looking Forward

**MHP expects to maintain its position as one of the world's lowest cost producers of high quality chicken. In the short term, this will be assisted by the large internally produced grain harvest during 2016 which forms the basis of the 2017 cost of goods sold.**

The key risk to the poultry business globally is avian influenza outbreaks close to production bases which can result in market access being closed. While MHP maintains rigorous biosecurity in its own facilities, outbreaks of avian influenza within regions of our operations can be problematic. Recent changes in disease regionalization in Ukraine have assisted in some mitigation of this risk. In addition, the Company has developed a robust contingency program for alternative sourcing of poultry in case of restricted market access related to this disease.

Sovereign risk, which may be abating, is ever present and any escalation of conflicts in the Eastern Ukraine could lead to lower than budgeted local poultry prices. The recent sale of all our operations in Crimea has been a positive development for the Group.

Any further devaluation of the Hryvna would lead to forex loss and non-cash translation effect on the income statement and balance sheet.

Land reform is still on its way. In October 2016, the moratorium has been prolonged until 1 January 2018. MHP has been working closely with its lessees across Ukraine for many years and is ready for any changes in legislation. All MHP's lease agreements include a pre-emption clause giving MHP the right to be the first buyer.

# CEO STATEMENT

The Company has continued to deliver its strategy of consistent growth in poultry, grain and meat processing operations, despite all the challenges in Ukraine.



**Yuriy Kosyuk, CEO**

Financial results are in line with management's expectations, with EBITDA of US\$ 415 million and EBITDA margin of 37%.

Having previously announced our intentions, the Company followed its strategy for growth both in poultry, grain and meat processing operations. In line with our targets for 2016, MHP completed a number of poultry production projects, increased poultry exports and optimized its costs by achieving self-sufficiency in hatching eggs. MHP also achieved close to record yields from its land and, as is customary, far exceeded national averages for Ukraine.

While sustaining our leading market position in Ukraine, we continued to develop export opportunities worldwide, establishing new partnerships in the EU and MENA and introducing market targeting for specific products. To improve access to the EU markets, in the first quarter of 2016 the Company invested US\$ 3.5 million to commission a chicken processing operation in the Netherlands. This will enable MHP to increase the level of service to European customers by offering both commodity and packaged products for food service channels, and will allow better control of export volumes. Later in the year, we opened a distribution and sales office in UAE.



# CEO STATEMENT

*Continued*

In 2016, we exceeded our own expectations for poultry exports, with a 53% increase to almost 190,000 tonnes. Taken together, exports of poultry, oils and grains generated a significant increase in hard currency revenues, from 49% to 56% of total revenue.

## **Our targets for 2017 are:**

- to start the construction of Phase 2 (Line1) of the Vinnytsia project with the ultimate aim of elevating production to around 730,000 tonnes per year by 2020;
- to continue our focus on exports, cementing our position in existing territories and investigating new opportunities;
- to maintain our investment in people and build on our reputation as a high-quality, responsible and transparent employer;
- to promote sustainable development of the business, with a particular focus on environmental impact (including alternative energy projects), animal welfare and social responsibility.

I am confident that our strategy of consistent growth of the Company will continue to deliver strong operational and financial performance in 2017 and beyond.

# RISK MANAGEMENT

The Board of Directors and Management view risk management as an integral part of value creation, so MHP's risk management process is closely aligned with the Group's strategy.

Systematic management of risks, including carefully designed mitigation actions, is a key element of our management of business performance.

## *How we manage risks*

MHP is in the process of adopting international standards such as COSO (Committee of Sponsoring Organizations) ERM framework and ISO 31000 to provide an appropriate framework for the identification and management of risks which could prevent the Group from achieving its business objectives. Once identified, risks are evaluated to establish the likelihood of their occurrence and their potential financial or non-financial impact. For risks assessed as significant, mitigation action plans are developed and implemented by operating management.

The summary of key risks is discussed regularly with MHP management and reported at least annually to the Board of Directors through the Audit Committee.

In 2016, a new Risks and Process Management Department was established to focus on identifying and managing risks and analysing and improving business processes.

## *Principal risks*

Principal risks facing the Group and mitigating actions are summarized below:

# RISK MANAGEMENT

Continued

## BUSINESS RISKS

### ***Fluctuation in global prices for grains and poultry***

**Impact:**

Changes in global prices for grains and poultry affect MHP's business, operating results, financial condition and prospects.

**Mitigations:**

MHP drives cost efficiency across all its businesses, supported by its vertically integrated business model, experienced and skillful management, modern technologies and state-of-the-art production facilities.

MHP minimizes the impact of fluctuations in world grain prices by growing internally 100% of the corn required for poultry feed production. The Company has also adopted an innovative approach by replacing a significant portion of expensive imported soya protein with protein from sunflower seeds grown by MHP; 24% of sunflower seed and 60% of soya bean requirements are produced internally with the balance procured from domestic growers.

Since 2015, soya protein has been produced at our oil extraction plant located in Katerynopil.

### ***Fluctuations in demand and market prices of chicken meat in Ukraine***

**Impact:**

Domestic sales of chicken meat account for a significant portion of MHP's total revenues. Accordingly, any factors influencing the supply of, demand for, or price of, chicken products in Ukraine could have a material impact on MHP's business and financial results.

**Mitigations:**

The trend of low meat consumption in Ukraine in comparison to the European countries still persists. Demand for chicken is expected to remain strong and to have further growth potential as beef and pork are mostly produced by households and small farms and are far more expensive to produce and purchase than chicken. Chicken meat is the most affordable kind of meat from both a price and diet perspective.

MHP products are available for purchase through different sales channels all times and the Company offers competitive trade terms to its customers.

MHP for several years has pursued a strategy of diversifying sales, resulting in 36% of MHP's chicken meat now being exported to more than 70 different countries, reducing dependence on the domestic Ukrainian market.

MHP continues to focus on further development of its operational efficiency, product enhancement and innovation through an unceasing R&D process, and on selling the most appropriate products for each market to achieve higher profitability per unit.

### ***Outbreaks of avian flu and other livestock diseases***

**Impact:**

Avian flu may result in:

- loss of flock;
- loss of customers;
- export restrictions;
- distribution of disease, and
- significant financial losses.

**Mitigations:**

To ensure the well-being of livestock at MHP's facilities, the Company has implemented high biosecurity supplemented by a set of preventive veterinary-sanitary and hygienic measures, including:

- ongoing monitoring of avian flu cases worldwide followed by double-checking of MHP's existing biosecurity systems based on identified reasons causing those cases;
- geographic separation of poultry rearing facilities with a remote distance between each facility;
  - in case of identification of any infected areas, immediate actions are taken to limit access of all visitors to MHP facilities;
- regular monitoring of poultry conditions, including analysis of indicators of their well-being and health and investigation of the quality of raw materials (litter, food, water) and products (carcasses of poultry);
- monitoring compliance with biosafety rule;
- strict control over the implementation of preventive and control measures.

# RISK MANAGEMENT

*Continued*

## ***Fluctuation in commodity prices such as gas, fuel and energy***

### **Impact:**

Changes in certain commodity prices (including, gas, fuel) affect MHP production and distribution costs that influence operating results and cash flows.

### **Mitigations:**

Gas, fuel and energy price changes do not exceed 3% of our overall costs each.

Energy price risks are mitigated by a priority focus on developing renewable sources of energy and a consistent increase in the use of co-generation and alternative energy technology. Processing of sunflower seeds leaves a huge amount of husks that are burned to generate steam heat for our processing plants.

## ***Unfavorable weather conditions***

### **Impact:**

Extreme changes in temperature or rainfall including weather change in summer and winter could influence agricultural productivity as a whole and crop yield, harvesting and transportation costs in particular.

### **Mitigations:**

Ukraine's weather is generally temperate, with plenty of sunshine in summer and adequate rainfall. This combines with extremely fertile soil to create excellent growing conditions.

In addition, MHP's management supports the use of modern technology to achieve a yield which is significantly higher than the average for Ukraine.

## ***Labor market disruption risk***

### **Impact:**

The agriculture industry is facing a threat caused by aging of the current workforce and changes in the skills base. Lack of science, engineering, technical and working staff could increase the risk to the long-term future of the business.

### **Mitigations:**

MHP maintains positive relations with employees and promotes positive working conditions.

MHP provides education and professional programs for the younger generation.

MHP provides a "Personnel Reserve" program for prospective employees.

MHP also follows a strategic action plan to build and support schools in regions where its facilities operate.

# RISK MANAGEMENT

Continued

## FINANCIAL RISKS

### *Fluctuation in foreign exchange rates and inflation*

**Impact:**

MHP operates globally and has operations and transactions in different currencies. Devaluation of the UAH against US dollars and changes in exchange rates give rise to transactional exposures.

**Mitigations:**

The majority of MHP borrowings is denominated in US dollars; the resulting exposure is hedged by earning 56% of total revenue in US dollars from the export of sunflower and soybean oils, chicken meat and grain. The amount of export sales will continue to increase with further expansion of the Vinnytsia poultry complex and strengthening of positions in export markets. This will allow MHP to continue to service all dollar-denominated loans and payments for operating activities.

In 2016 the Company developed and implemented a Procurement Policy that defines restrictions in conducting purchase contracts denominated in foreign currencies. MHP's policy promotes the conduct of purchase contracts mostly in its functional currency (UAH).

### *Fluctuation in interest rates inflation*

**Impact:**

Changes in interest rates affect the cost of borrowings, the value of our financial instruments, and our profit and loss and shareholders' equity.

**Mitigations:**

MHP monitors its interest rate exposures and analyzes the potential impact of interest rate movements on its net interest expenses.

MHP's debt portfolio is well balanced with 60/40 share of fixed/floating interest rates. The majority of MHP's borrowings are from foreign banks at rates lower than those available in Ukraine; a significant part of our debt is also in the form of Eurobonds issued at fixed interest rates.

### *Credit risk*

**Impact:**

Counterparties involved in transactions with MHP may fail to make scheduled payments, resulting in financial losses to MHP.

**Mitigations:**

MHP has a diversified pool of customers. The amount of credit allowed to any one customer or group of customers is strictly controlled. Credit offered to major groups of customers, including supermarkets and franchisees, on average is between 5 and 21 days.

To hedge the risk, MHP procedures require verification of counterparties' solvency prior to signing of an agreement with contractors. Policies and operating guidelines include limits in respect of counterparties to ensure that there is no significant concentration of credit risk.

Credit risks are managed by legal activities which include security paragraphs into agreements with customers.

### *Liquidity risk*

**Impact:**

If, in the long term, MHP is unable to generate and maintain positive operating cash flows and operating income, it may need additional funding. MHP's inability to raise capital on favorable terms could lead to a default on its payment obligations and could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.

**Mitigations:**

MHP maintains efficient budgeting and cash management processes to ensure that adequate funds are available to meet business requirements.

MHP adopts a flexible CAPEX program enabling capital projects to be deferred if necessary.

MHP has an irreducible balance in hard currency on correspondent accounts and maintains a certain level of undrawn credit lines.



# RISK MANAGEMENT

*Continued*

## REPUTATIONAL RISKS

### *Community relations risk*

**Impact:**

Failure to successfully manage relations with local communities and NGOs (non-government organization), could disrupt our operations and adversely affect the Group's reputation.

**Mitigations:**

MHP closely cooperates with local communities and other stakeholders in the regions of its operational activities, interacts with them and implements programs and initiatives to improve the quality and standard of living.

For these purposes MHP organizes regular meetings with the local communities during which MHP representatives discuss relevant issues, actual business performance, further action plans and answer questions raised by local residents.

MHP business representatives organize roadshows for local citizens when they have the opportunity to ask questions.

MHP uses communication channels including personal communication, communication via official web-site/entities web-site/ social networks/ information boards/corporate publications and media, enterprises tours.

The Company cooperates with governments, local and community organizations to contribute to and anticipate important changes in public policy.

MHP has implemented Corporate Social Responsibility ('CSR') and Communication Policies, and an Animal Welfare Policy.

# RISK MANAGEMENT

*Continued*

## COMPLIANCE RISKS

### *Legal and regulatory risk*

**Impact:**

The Group's business may be affected by regulatory developments in any of the countries in which the MHP operates, including changes in fiscal, tax or other regulatory regimes. Potential impacts include higher costs to meet new environmental requirements, the possible expropriation of assets, other taxes, or new requirements for local ownership.

**Mitigations:**

MHP management is actively monitoring regulatory developments in the countries where the Group operates.

MHP's financial control framework has adopted tax and treasury approaches fully in compliance with relevant local laws in the jurisdiction where the business is registered. MHP pays its taxes in full.

Moreover, MHP is consistently developing and integrating into its business practice Market Abuse Regulation and Sustainability reporting, etc.

### *Sovereign risk*

**Impact:**

Political instability may negatively affect the economy as a whole and have a material adverse effect on MHP's business, results in operations, financial conditions and prospects including civil unrest, harvesting permits, land leases or purchases, decrease in profitability and impairment of assets.

**Mitigations:**

MHP's operations extend through all regions of Ukraine with wide regional diversification. Deep vertical integration and internally developed supply chains allow operations located in potentially distressed regions of Ukraine to remain self-sufficient with both production needs and markets, even in a case of temporary regional isolation.

MHP minimizes political risks associated with its business presence in Ukraine by expanding the territory of operations and access to the new European and other priority markets.

# CORPORATE GOVERNANCE OVERVIEW

***MHP S.A. ( the “Company”) is a Luxembourg public limited liability company (société anonyme), whose shares in the form of global depositary receipts (“GDRs”) are listed and admitted to trading on the London Stock Exchange.***

The Company complies with the Ten Principles of Corporate Governance approved by the Luxembourg Stock Exchange and voluntary corporate governance regime stated in the UK Corporate Governance Code. The Company upholds and practices the highest standards of ethics and integrity in its relationships with its shareholders, directors, personnel, business community and other third parties including government and regulatory agencies.

The main aspects of the Company's corporate governance policy are described in the Corporate Governance Charter approved by the Board of Directors in May 2012 and published on the Company's corporate website at <http://www.mhp.com.ua/en/investor-relations/corporate-governance>.

## **Board of Directors**

The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant Luxembourg laws and regulations and the Articles of association of the Company: <http://www.mhp.com.ua/en/investor-relations/corporate-governance/articles-of-association>.

Members of the Board are elected by a majority vote of shareholders at the annual general meeting (“AGM”), may be elected for a six-year period and may be re-elected an unlimited number of times. As of 31 December 2016, of the Board's six directors, three are independent. The Board is assisted by two Board committees: the Audit Committee and the Nominations and Remunerations Committee. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions.

The Senior Independent Director, John Grant, is available to shareholders if they have any concerns that they cannot resolve through the normal channels (e.g. chairman, chief executive or other directors).

The Senior Independent Director also provides a sounding board for the Chairman, and is responsible for the evaluation of the Chairman and serves as a trusted intermediary for Non-executive Directors as and when necessary. In 2016 the Senior Independent Director was not made aware of any concerns by shareholders or other stakeholders.

In 2016, the Board conducted an annual effectiveness review in order to evaluate its performance as well as that of its committees and individual Directors. The evaluation process was initiated by a questionnaire. The conclusions were analyzed by the Board to further strengthen its composition and performance.

# CORPORATE GOVERNANCE OVERVIEW

Continued

## ***During the year, the Board comprised:***

**Dr John C Rich**, Non-executive Interim Chairman of the Board\*, Chairman of the Nominations and Remunerations Committee, Member of the Audit Committee

**John Grant**, Senior Independent Director, Non-executive Director, Chairman of the Audit Committee, Member of the Nominations and Remunerations Committee

**Philippe Lamarche**, Non-executive Director, Member of the Audit Committee

**Yuriy Kosyuk**, Chief Executive Officer, Executive Director

**Yuriy Melnyk**, Chief Operating Officer, Executive Director

**Viktoriya Kapelyushnaya**, Chief Financial Officer, Executive Director

During 2016, each director attended 100% of the Board's meetings.

The term of office of each member of the Board of Directors was renewed at the AGM held on 16 June 2016.

Each Director has signed a letter of appointment with the Company which applies for as long as he or she remains a Director. The letters do not provide for any benefits on termination of directorship. In the case of Dr Rich, Mr Grant and Mr Lamarche, the letters provide for payment of compensation and the reimbursement of business-related expenses. Ms Kapelyushnaya and Mr Melnyk do not receive compensation for their service as Directors of MHP S.A. in addition to their remuneration as executive management.

The terms and conditions for Mr Kosyuk's appointment as Chief Executive Officer ("CEO") were agreed and signed on 21 June 2006. The terms are for the duration of his office and do not provide for any benefits on termination of his directorship. Mr Kosyuk is required to give three months' notice of resignation from his position as CEO. The terms contain confidentiality obligations applicable to Mr Kosyuk for a period of five years after termination of his office.

The remuneration and benefits of all members of the Board of Directors, including the Chief Executive Officer, regardless of whether such remuneration is paid by the Company or by any other entity within the Group, is established by the Nominations and Remuneration Committee. In addition, the remuneration paid to Non-executive Directors is approved by the AGM. The remuneration and benefits paid by the Company to the persons responsible for the day-to-day management of the Company is reported by the Board of Directors to the AGM.

For 2016 AGM results please follow the link: <http://www.mhp.com.ua/library/file/results-of-agm-2016.pdf>.

## ***Remuneration of auditors***

Remuneration paid to the auditors was USD 554 thousand and USD 702 thousand for the years ended 31 December 2016 and 2015 respectively. Such remuneration includes both audit and non-audit services, with the audit fees component representing USD 390 thousand and USD 430 thousand for the years ended 31 December 2016 and 2015.

The Company has policies and processes in place to ensure independence of the auditors, including a limitation on non-audit fees set by the Board, prior approval by the Audit Committee of non-audit fees in excess of specified limits and an annual review by the Audit Committee of whether any services provided are incompatible with independence of the auditors.

\*Mr Charles E Adriaenssen was Chairman of the Board of Directors of MHP S.A. and Chairman of the Nomination and Remuneration Committee until 19 July 2016. Please read MHP's announcement about resignation and appointment of a new Chairman following the link: <http://www.mhp.com.ua/library/file/chairman-resignation-appointment.pdf>. Dr John Rich was appointed Interim Chairman of the Board of Directors of MHP S.A. and Chairman of the Nominations and Remuneration Committee on 19 July 2016.

# CORPORATE GOVERNANCE OVERVIEW

*Continued*

## **Internal control and risk management**

The Board of Directors is ultimately responsible for the Company's governance, risk management, internal control environment and processes and reviews their effectiveness at least annually.

Once identified, risks are evaluated to establish their potential financial or non-financial impact and the likelihood of their occurrence. For risks assessed as significant, mitigation action plans are developed and implemented by operational business management. The summary of key risks is regularly discussed with MHP management and reported at least annually to the Board of Directors through the Audit Committee.

The Company has an independent Risk and Process Management department whose activities are overseen by the Chief Financial Officer and reported to the Audit Committee.

The Board of Directors, management and employees follows ethical principles of doing business that are in line with the approved Conflict of Interest Policy. This covers any transactions involving conflicts of interest (whether actual or potential) of: (1) MHP's management team members, including directors of subsidiaries and branches ("key management"); (2) MHP's line managers who have authority to authorize transactions on behalf of MHP ("line managers"); (3) other MHP employees who are authorized to internally approve any decisions as to significant provisions of transactions based on the internal policies and instructions ("responsible employees") or have power to influence such decisions.

A full description of risks and their management is on page 15 of this report.

## **Financial reporting process**

MHP has in place a comprehensive financial review cycle, which includes a comprehensive annual budgeting process. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board of Directors.

Major commercial and financial risks are assessed as part of the business planning process. There is a comprehensive system of financial reporting, with monthly performance reports presented to the Board of Directors.

MHP has in place common accounting policies and procedures across the Group on financial reporting and closing. Management monitors the publication of new accounting and reporting standards and works closely with the external auditors in evaluating in advance the potential impact of these standards.

## **Compensation of key management**

### **Personnel**

Total compensation of the Group's key management personnel amounted to USD 8,421 thousand and USD 7,778 thousand for the years ended 31 December 2016 and 2015 respectively. Compensation of key management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's non-executive directors, which consists of contractual fees, amounted to USD 451 thousand and USD 496 thousand in 2016 and 2015, respectively.

Key management personnel totaled 40 individuals as of 31 December 2016 and 2015 respectively, including 3 and 4 independent directors as of 31 December 2016 and 2015 respectively.



# CORPORATE GOVERNANCE OVERVIEW

Continued

## *Litigation statement on the directors and officers*

No member of the Board of Directors or of MHP's senior management had, for at least five years:

1. Any convictions relating to fraudulent offences;
2. Been a senior manager or a member of the administrative or supervisory bodies of any company at the time of, or preceding, any bankruptcy, receivership or liquidation; or
3. Deen subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor had ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company, or from acting in the management or conduct of the affairs of a company.

## *Transactions with related parties*

In December 2016 the Group increased its effective ownership interest in Starynska breeding farm to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 531,395 treasury shares held by the Group. As of 31 December 2016, these shares were in the process of registration as owned by new shareholder. The difference between fair value of shares transferred and their carrying value in the amount of USD 2,901 thousand was recognized as an adjustment to additional paid-in capital (Note 22).

## *Additional disclosures*

At the date of this annual report, no takeover bids had been made to acquire the Company's shares. According to the terms of the Senior Notes, the Company may be required to offer to repurchase the Senior Notes from the holders if a change in control as a result of a takeover bid occurs.

There are no agreements between the Company and its Directors or employees providing for compensation on loss of office or employment (whether through resignation, purported redundancy or otherwise) that would occur because of a takeover bid.

3

**NEDs**

3

**Executive Directors**

2

**Commitees**

**Senior Independent Director since 2011**

**Corporate Governance Charter since 2012**

# CORPORATE GOVERNANCE OVERVIEW

Continued

## COMMITTEES

### Nominations and Remuneration Committee

*Dr John C Rich, Chairman\**  
*John Grant*

#### **The Committee's main tasks are:**

- To recommend to the Board the appointment or renewal of Directors, to review remuneration and monitor performance of the Board, and to make recommendations to the Board in respect of the necessary skills and experience required to improve the functioning of the Board.
- To monitor the performance of key officers of the Company and evaluate results versus stated objectives, to monitor training needs and programmes to improve employee effectiveness, to ensure the Company develops successors for all key positions.
- To oversee the development and approval by the Board of the Company's overall compensation policy including its long-term incentive plans, to ensure that top managers are incentivized to achieve and are compensated for exceptional performance, to oversee the maintenance and continuous improvement of the Company's compensation policy with a view to aligning the interests of employees with the interests of shareholders.
- To submit for approval to the Board the compensation packages of the CEO and of the Executive Management.
- To approve all external hiring of key officers.

During 2016, the Committee held one meeting, which was attended by all members of the Committee. (Note: a meeting took place in March 2016 under former Chairman, Mr Adriaenssen).

### Audit Committee

*John Grant, Chairman*  
*John C Rich*  
*Philippe Lamarche*

#### **The Committee's main tasks are:**

- To review and monitor the integrity of the financial statements, including the Annual Report and any formal announcements relating to financial performance.
- To ensure compliance with legal and regulatory requirements.
- To keep under review the effectiveness of the Company's financial reporting, risk management and internal control systems.
- To review the independence, objectivity and effectiveness of the external auditors, and make recommendations to the Board regarding the appointment, re-appointment and replacement of external auditors and their terms of engagement.
- To review policy and practice regarding engaging the external auditor to supply non-audit services.
- To ensure compliance with accounting standards and consistency of accounting policies.
- To review and challenge the going concern assumption.
- To review the Annual Report and financial statements to ensure they are fair, balanced and understandable.

During 2016, the Committee held 5 meetings. Each Committee member attended 100% of the meetings.

The Audit Committee Report is on page 31.

\* Mr Charles E Adriaenssen was Chairman of the Nominations and Remuneration Committee until 19 July 2016, when Dr John Rich replaced him as Chairman.

# BOARD OF DIRECTORS



## **Dr John C Rich**

*Non-executive Interim Chairman of the Board, Chairman of the Nominations and Remunerations Committee, Member of the Audit Committee*

*Dr Rich joined the board in 2006.*

He is the Managing Director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC) and is a specialist agri-business consultant for the IFC and IFC invested clients. From 1990 to 2003, he was an executive director of Austasia Pty Ltd, an agri-business conglomerate which has operations in Australia, South East Asia and China, and from 1995 to 2002 was a director of AN-OSI Pty Ltd, a company that specialized in supply-chain management for feedlot beef, poultry and dairy operations in Asia and Europe.

Dr Rich holds a BSc and a BVSc from the University of Sydney, is a member of the Australian College of Veterinary Scientists and a registered financial member of the Australian College of Veterinary Surgeons.

He has completed a number of post-graduate courses in agricultural and food-related industries.



## **John Grant**

*Senior Independent Director, Chairman of the Audit Committee, Member of the Nominations and Remunerations Committee*

Mr Grant joined the board in 2006.

He is currently Senior Independent Director of Melrose plc, a non-executive director of Augean plc and Chairman of the British Racing Drivers' Club Ltd. He was previously a non-executive director of National Grid plc, Pace plc, Wolfson Microelectronics plc and chairman or non-executive director of a number of smaller companies. From 1992 to 1996, he was Finance Director of Lucas Industries plc and Lucas Varity plc, and before that was Director of Corporate Strategy for Ford Motor Company.

Mr Grant holds an MBA from Cranfield School of Management, a BSc in Economics from Queen's University Belfast and an Honorary Doctorate in Engineering from University of Bolton.



## **Philippe Lamarche**

*Non-executive Director, Member of the Audit Committee*

Mr Philippe Lamarche joined the board in 2011.

He is the Senior Private Banker of Banque Paribas Luxembourg, Luxembourg.

He holds a Degree in Law and Economics from The Catholic University of Louvain (IAG).

Philippe Lamarche is a member of the Belgian Association of Financial Analysts.

# BOARD OF DIRECTORS

Continued



## Yuriy Kosyuk

*Chief Executive Officer*

*Mr Kosyuk founded MHP in 1998 and is also the CEO of PJSC MHP.*

In 1995 he founded the Business Centre for the Food Industry (BCFI) and was President until 1999. BCFI operated in the domestic and export markets for grain and other agricultural products.

Mr Kosyuk graduated as a processing engineer in meat and milk production from the Kiev Institute of Food Industry in 1992.



## Yuriy Melnyk

*Chief Operating Officer*

*In July 2010 Yuriy Melnyk was appointed First Deputy CEO of Myronivsky Hliboproduct ("MHP").*

Prior to joining MHP, Mr Melnyk held the position of Agricultural Minister for Ukraine and Deputy Prime Minister of Ukraine, as well as serving as an advisor to the Prime Minister of Ukraine. Mr Melnyk is a Doctor of Agriculture and has been a correspondent member of National Academy of Sciences of Ukraine from 2002. In 2004 he was awarded the State Prize of Ukraine in science and technology.

He graduated from the Academy of Agriculture of Ukraine as a Zoo engineer in 1985.



## Viktoriya Kapelyushnaya

*Chief Financial Officer*

Ms Kapelyushnaya, who is also Financial Director of PJSC MHP, joined MHP in 1998 and was elected to the board in 2006. She was previously Deputy Chief Accountant, then Chief Accountant, of BCFI. She holds diplomas in meat processing engineering, 1992, and financial auditing, 1998, from the Kiev Institute of Food Industry.

# DIRECTOR'S REPORT

## Incorporated information

Disclosures elsewhere in the Annual Report are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of the Companies Act 2006 and of the Disclosure and Transparency Rules and the Listing Rules of the Financial Conduct Authorities.

## Principal activities and review of the business

MHP is one of the leading agro-industrial companies and the largest producer of chicken in Ukraine. The business is run on a vertically integrated principle with the objective of making it self-sufficient and is structured into three segments: Poultry and related operations, Grain growing operations, and Other agricultural operations.

### Poultry and related operations

This division produces and sells chicken meat, vegetable oil, mixed fodder and convenience foods. It incorporates three chicken and two breeder farms, three sunflower oil plants and a soya crushing plant, three feed mills, and convenience food facilities.

### In 2016 production of:

- three chicken meat facilities produced 573,003 tonnes of chicken meat;
- two breeding farms produced 408,696,000 eggs;
- three sunflower oil plants produced 342,240 tonnes;
- one soya crushing plant produced 34,150 tonnes;
- three feed mill plants produced 1,593,520 tonnes;
- meat-processing plant produced 33,896 tonnes;
- convenience food plant produced 10,218 tonnes.

### Grain growing operations

This division grows crops for fodder and for sale to third parties on 370,000 hectares of land incorporating a number of arable farms in Ukraine and grain storage facilities of 1,585,000 m<sup>3</sup> and over 377,000 tonnes capacity in plastic bags (land 'sleeves'). In 2016 MHP harvested 355,000 hectares of land and gathered 2,351,491 tonnes of crops.

### Other agricultural operations

This division produces and sells sausages and cooked meat, beef, goose and foie gras, and fruit. It incorporates one mixed farm, a goose farm and two facilities for producing prepared meat products. Meat processing business is the flagship of the division with 38,781 tonnes of production in 2016.

## Future developments

### The Group's strategy is to:

- expand its poultry production capacity to around 730,000 tonnes by 2020;
- expand its land bank in Ukraine to around 550,000 hectares within the next 5 years to provide stability in the ingredients for fodder and additional hard currency revenues from grain exports;
- continue expansion of poultry exports – market targeting, diversification of sales, joint venture opportunities, sales and distribution offices abroad;
- seek new business opportunities (e.g. acquisition) in meat-processing business in international markets;
- increase the efficiency of production through modernization and innovation, improvement in cost and quality controls, and use of up-to-date technology deepening vertical integration;
- promote and further develop its strong brands through consumer-driven innovations and introduction of new products;
- expand its processed meat business;
- invest in additional alternative energy projects (e.g. biogas);
- continue to improve already high biosecurity standards, environmental, health and safety (EHS) and animal welfare practices.



# DIRECTOR'S REPORT

*Continued*

## **Board meetings**

During 2016, the Board of Directors held eight meetings. Each director attended 100 % of the meetings (sometimes via conference call).

Since 2011, the Board has conducted effectiveness reviews in order to evaluate its performance as well as that of its committees and individual directors. The evaluation process is normally initiated by a questionnaire and then supplemented by individual interviews by the Chairman with each of the directors. The conclusions are analyzed by the Board to further strengthen its composition and performance.

## **AGM**

The next AGM meeting according will take place on 16 June 2017, at 5, rue Guillaume Kroll, L-1882 Luxembourg.

## **Directors**

The Directors of the Company as at the date of this Annual Report, together with their biographic details, can be found on pages 26 and 27.

After 10 years of successful chairmanship, on 19 July 2016 Mr Charles Adriaenssen announced his resignation as Chairman of the Board of Directors of MHP S.A. and Chairman of the Nomination and Remuneration Committee for family reasons, with immediate effect. On the same date, Dr. John Rich was named interim Chairman of the Board of Directors of MHP S.A. and Chairman of the Nomination and Remuneration Committee. Dr. Rich has had ten years' experience on the Board of Directors of MHP S.A. as a Non-Executive Director and is a consulting agribusiness industry specialist for IFC. On 14 March 2017, the Board confirmed Dr John Rich as Chairman of the Board of Directors of MHP S.A. on a permanent basis.

## **Dividend policy**

In March 2013 the Board of Directors approved the adoption of a dividend policy which maintained a balance between the need to invest in further development and the right of shareholders to share the net profit of the Company. The Company paid dividends of US\$ 80 million in 2016 and US\$ 50 million of dividends in 2015. On 14 March 2017, the Board of Directors approved an interim dividend for 2016 of US\$ 0.7492 per share, equivalent to US\$ 80 million.

## **Research and Development**

MHP Group has consistently maintained a wide range of research and development projects and actively integrates new technologies throughout all its activities. Our target is to sustain our position as a world leader in poultry production cost by being highly efficient while at the same time sustaining a responsible approach towards society, the environment and animal welfare.

## **Business review and risks**

A review of the Group's performance, including key risks and uncertainties and likely developments, can be found in the Chairman's Statement on page 10 and the Risk Management section on page 15 of this Annual Report.

## **CSR Reporting**

In 2016, the Group initiated Corporate Social Responsibility ("CSR") reporting, with its first report being for 2015. The main stakeholders and issues covered were employees and employment developments, local communities, clients and partners, and international financial institutions ("IFIs"). The Company plans to report on CSR annually and expects its 2016 CSR Report to be issued in June 2017.

# DIRECTOR'S REPORT

*Continued*

## ***Going concern***

After reviewing the 2017 budget and longer-term plans, the Directors are satisfied that, at the time of the approval of the financial statements, it was appropriate to adopt the going concern basis in preparing the financial statements of the Group.

## ***Communication with shareholders***

The directors are committed to effective and clear communication with the Group's shareholders. During 2015, shareholders had a number of meetings and discussions with Board members, predominantly with Mr Yuriy Kosyuk, Mr Yuriy Melnyk, and Ms Victoria Kapelyushnaya, including meetings at conferences and regular conference calls.

To facilitate communication with independent directors, the board has introduced a direct communication channel with independent directors (details can be found on <http://www.mhp.com.ua/en/investor-relations/ir-contacts>).

## ***Disclosure of information to auditors***

So far as each director is aware, all information which is relevant to the audit of the Group's consolidated financial statements has been supplied to the Group's auditors. Each director has taken all steps that he/she ought reasonably to have taken in his/her duty as a director in order to make himself/herself aware of any relevant audit information, and to establish that the Group's auditors are aware of that information.

***Dividend Policy since 2013***

***2016 Dividend US\$ 80 million***

***CSR Report since 2016***

***Next AGM: 16 June 2017***

## ***Approval***

Approved by the Board and signed on its behalf by:

***Corporate Secretary  
Anastasiya Sobotyuk***

# AUDIT COMMITTEE REPORT

*The responsibilities of the Audit Committee (the “Committee”) include overseeing financial reporting, risk management and internal controls and making recommendations to the Board regarding the appointment of external and internal auditors*

## **Role and responsibilities**

The Committee's role and responsibilities are set out in its terms of reference, which are available on the Company's website: <http://www.mhp.com.ua/en/investor-relations/corporate-governance/MHP-S-A-Luxembourg/terms-of-references-of-committees>. The Committee accepts its responsibility for protecting the interests of shareholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit.

## **The Committee is responsible specifically for:**

- reviewing and monitoring the integrity of the financial statements, including the Annual Report and any formal announcements relating to financial performance;
- ensuring compliance with legal and regulatory requirements;
- keeping under review the effectiveness of the Company's financial reporting, risk management and internal control systems;
- reviewing the independence, objectivity and effectiveness of the external auditors, and making recommendations to the Board regarding the appointment, re-appointment and replacement of external auditors and their terms of engagement;
- reviewing policy and practice regarding engaging the external auditor to supply non-audit services;
- considering the requirement for, and monitoring the effectiveness of, the internal audit function;
- ensuring compliance with accounting standards and consistency of accounting policies;
- reviewing and challenging the going concern assumption;
- reviewing the Annual Report and financial statements to ensure they are fair, balanced and understandable.



**John Grant, Chairman of the Audit Committee**

# AUDIT COMMITTEE REPORT

Continued

## Composition

The Committee comprises a minimum of two (currently three) non-executive directors, each of whom is deemed by the Board to be independent. The Chairman of the Committee is John Grant, who has recent and relevant financial experience from senior executive and/or non-executive roles (see biography on page 26).

The Committee invites the Chief Financial Officer, the Head of Internal Control, the Head of Internal Audit and senior representatives of the external auditor to attend meetings as appropriate. The Committee has the right to invite any other director or employee to attend meetings as it considers appropriate.

The Committee meets with the external auditors at least once a year in the absence of management.

## Meetings in the year

The Committee meets at least four times a year. The scheduling of meetings is intended to align with the financial reporting timetable, enabling the Committee to review the annual and quarterly financial statements, to agree the audit plan in advance of the full year audit, and to maintain oversight of the internal controls and processes. In 2016, the Committee met five times, including an extra meeting to consider and implement the results of a tender for provision of external audit services.

The attendance of members at these meetings is shown in the table above.

## Significant issues related to the financial statements

The Committee undertook the following recurring activities in relation to the financial statements:

- reviewed the Annual Report and annual and quarterly financial statements, including consideration of the external auditor's report on their audit of the full year results;
- considered the processes in place for the valuation of assets, including the reasonableness and consistency of assumptions;
- reviewed the effectiveness of the Company's risk management and internal controls;
- considered the Annual Report and annual and quarterly financial statements to ensure they were fair, balanced and understandable, and provided the information necessary for shareholders to assess the company's position and performance, business model and strategy, and advised the board accordingly;
- reviewed and agreed the scope of the audit work to be undertaken by the external auditor.

Member	No of meetings
<b>John Grant (Chairman)</b>	<b>5</b>
<b>John C Rich</b>	<b>5</b>
<b>Philippe Lamarche</b>	<b>5</b>

# AUDIT COMMITTEE REPORT

Continued

***In addition, the Committee considered the following significant issues in relation to the financial statements:***

Significant issue considered	How the issue was addressed by the Committee
<b>Valuation of property, plant and equipment</b> The Company applies a revaluation model to the valuation of grain storage facilities and, since 2014, for vehicles, agricultural and production machinery, and for buildings and structures.	The Committee reviewed management's approach, including the use of an independent external valuation expert, and assessed the competence and independence of the valuer and verified that the methods and assumptions used were appropriate and consistent with accounting standards.
<b>Valuation of agricultural assets</b> Valuation of agricultural assets requires the use of complex models to arrive at fair values.	The Committee has tested the assumptions and judgements applied by management and verified the reasonableness of input data and the accuracy of calculations.
<b>Revenue recognition</b> Auditors are required to investigate the risk of misstatement of revenue recognition.	The Committee has undertaken appropriate testing procedures and that no material misstatements had been identified.
<b>Compliance with bond and bank covenants</b> Continued compliance with covenants included in bond and bank debt agreements is a prime focus for the Committee.	The Committee has performed appropriate stress tests taking account of potential depreciation of the Ukrainian currency due to ongoing crisis.
<b>Tax risks</b> In view of the ambiguity of tax legislation, certain transactions may be challenged by the relevant governmental authorities	The Committee has performed appropriate procedures to evaluate the Company's tax position and risk and the accuracy of tax contingency disclosures.
<b>Ukraine country risk</b> In view of the continuing crisis in Ukraine, the Committee required assurance that the implications had been fully recognised in considering the Company's status as a going concern	The Committee has performed procedures to check the Company's exposure to political, economic and legal risks. The appropriate safeguards were in place to mitigate these risks, and that all relevant disclosures were made in the financial statements.
<b>Going concern</b> Assessment of the going concern assumptions, taking account of political and economic uncertainties in Ukraine	The Committee reviewed the assumptions underlying the assessment of the Company's ability to continue as a going concern and, after considering the stress test, supported management's recommendation that the going concern assumption continued to be appropriate due to potential depreciation of Ukrainian currency.

# AUDIT COMMITTEE REPORT

Continued

## External Audit

### Auditor rotation

In accordance with European regulatory requirements and the guidance provided by the Competition and Markets Authority regarding the statutory audit of public-interest entities, the Company was required to conduct a tender process to select the provider of the statutory audit with effect from the 2017 financial year. Deloitte Audit Société à responsabilité limitée had been the Company's auditor since 2003. In September 2016, the Company invited proposals from the four largest international audit firms. The selection process included:

- meetings with management to more clearly define the scope of work;
- submission of written proposals for review by management and the Committee;
- short-listing by the Committee of candidates deemed to have the strongest capabilities;
- presentations by the short-listed candidate teams to management and the Committee;
- decision by the Committee.

The final steps in the process took place in December 2016, at which point the Committee concluded, based on its assessment of which firm had the strongest capabilities, that Deloitte Audit Société à responsabilité limitée should be re-appointed as statutory auditor.

### Assessment of effectiveness

In view of the auditor selection process, it was not considered necessary to conduct a separate formal assessment of auditor effectiveness in 2016. The Committee remains satisfied with the quality, integrity and effectiveness of the work undertaken by Deloitte Audit Société à responsabilité limitée.

### Non-audit services

A policy is in place covering engagement of the external auditor for the supply of non-audit services to ensure that the independence and objectivity of the external auditor are not impaired. An analysis of fees earned by the external auditor for audit and non-audit services can be found in Note 8 to the financial statements.

Under new EU and Competition Commission rules that became effective in January 2017, new restrictions will apply from 2020 limiting the cost of non-audit services provided by the external auditor to 70% of the average audit fee for the previous three years. Although this is not expected to have a material impact on the Company, the audit tender process provided the opportunity to build relationships with other firms that could provide non-audit services in future. It is the Committee's intention to use these relationships to ensure future provision of non-audit services is diversified so as to ensure both independence of the external audit and best quality and best value provision of non-audit services.

### Auditor objectivity and independence

The Committee has a policy and procedures in place to ensure that auditor independence and objectivity is never compromised. These include approval requirements for engagement of the external auditor for non-audit services, periodic review of the cost of non-audit services provided by the external auditor and requirements for rotation of the audit partner every 5 years. Each year, the auditor is required to provide evidence to the Committee of how it believes its independence and objectivity have been maintained. Based on these requirements and procedures, the Committee remains confident that auditor independence and objectivity have been maintained.



# AUDIT COMMITTEE REPORT

Continued

## Internal Audit

In recognition of the increased scale and complexity of the Company, an Internal Audit function was put in place in 2011 with the primary purpose of providing independent assurance to management and the Committee, and hence the Board, on the Company's risk management and control environment. Internal Audit coverage includes all of the Company's operations, resources, services and responsibilities to other bodies, with no department or business unit of the Company being exempt from review.

Internal Audit responsibilities include:

- examining and evaluating the adequacy of the Company's system of internal control;
- assessing the reliability and accuracy of information provided to stakeholders;
- assessing compliance with statutory and regulatory requirements;
- assessing compliance with Company policies and procedures;
- ensuring that the Company's assets are properly accounted for and safeguarded;
- assessing the efficiency and effectiveness with which resources are employed;
- liaising with external auditors in audit planning and assisting the external auditors as required;
- investigating any instances of fraud, irregularity or corruption.

The Internal Audit programme is approved annually by the Committee and the Head of Internal Audit reports findings periodically to the Committee. During 2016, implementation of the Internal Audit programme was delayed following departure of the Head of Internal Audit to another company. A search for a suitably qualified replacement is in process.

## Risk management and internal control

The Committee monitors the effectiveness of the Company's risk management and control systems through regular updates from management, reviews of the key findings of the external and internal auditors and an annual review of the risk management process and risk matrix. Results are reported regularly to the Board, which has overall responsibility for risk management.

The annual review covers key risks that could potentially impact the achievement of MHP's strategic and financial objectives. New risks and changes in existing risks are identified on a continuous basis. A risk scoring system is used to help quantify both the probability and potential impact of each major risk after the effect of mitigating actions, to assess residual risks against the Company's risk appetite, and to prioritise further risk management actions.

No incidents of significant control weaknesses or failures were identified at any time during the year.

**John Grant Chairman,  
Audit Committee**

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

MHP S.A. (LSE:MHPC), one of the leading agro-industrial companies in Ukraine, focusing on the production of poultry and cultivation of grain, today announces its results for the twelve months and fourth quarter ended 31 December 2016.

In view of management's intention to dispose of the MHP companies located in the Autonomous Republic of Crimea (ARC), these assets were classified as discontinued operations. As previously announced, the sale of all these companies was completed on 17 February 2017. The profit or loss after tax from discontinued operations is shown as a single amount in the statement of comprehensive income. Comparative figures have been adjusted to represent results of continuing operations only.

## OPERATIONAL HIGHLIGHTS

### 12M 2016 highlights



- Poultry production volumes reached 573,003 tonnes, up by 10% year-on-year (12M 2015: 519,495 tonnes)
- The average chicken meat price increased by 10% year-on-year to UAH 29.81 per kg (12M 2015: UAH 27.19 per kg) (excluding VAT)
- Chicken meat exports increased by 52% to 189,939 tonnes (12M 2015: 124,604 tonnes) as a result of increased exports to the MENA countries, the EU and Africa
- Starting from July 2016, following expansion of its breeding farms, MHP became self-sufficient in hatching eggs
- The Company established processing plant in the EU and a sales office in the Middle East as part of its export strategy

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

## FINANCIAL HIGHLIGHTS

### 12M 2016 highlights



**7%**  
Revenue



**21%**  
Export Revenue

**37%**  
EBITDA margin

- Revenue of US\$ 1,135 million, increased by 7% year-on-year (12M 2015: US\$1,062 million)

- Export revenue amounted to US\$ 635 million, 56% of total revenue (12M 2015: US\$ 524 million, 49% of total revenue)

- Operating profit of US\$ 316 million decreased by 9%; operating margin was 28%

- EBITDA margin decreased to 37% from 41%; EBITDA decreased to US\$ 415 million from US\$ 436 million

- Net profit for the period is US\$ 69 million, compared to loss of US\$ 113 million for 12M 2015, including US\$ 145 million (12M 2015: US\$ 390 million) of non-cash foreign exchange translation loss

**Net Profit US\$ 69 million**

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

## FINANCIAL OVERVIEW

(in mln. US\$, unless indicated otherwise)	12M 2016	12M 2015	% change*
Revenue	1,135	1,062	7%
IAS 41 standard gains/(losses)	39	20	95%
Gross profit	362	342	6%
Gross profit margin	32%	32%	0 pps
Operating profit**	316	347	-9%
Operating profit margin	28%	33%	-5 pps
EBITDA	415	436	-5%
EBITDA margin	37%	41%	-4 pps
Net profit before foreign exchange differences	214	277	-23%
Net profit margin before forex gain/(loss)	19%	26%	-7 pps
Foreign exchange gain/(loss)	(145)	(390)	-63%
Net profit (loss)	69	(113)	-161%
Net profit margin	6%	-11%	17 pps

\* pps – percentage points

\*\* Operating profit before loss on impairment of property, plant and equipment

Average official FX rate for 12 months: UAH/US\$ 25.5458 in 2016 and UAH/US\$ 21.8290 in 2015

## SEGMENT PERFORMANCE

### Poultry and related operations

	12M 2016	12M 2015	% change*
Sales volume, third parties tonnes	534,977	489,816	9%
Export sales volume, third parties tonnes	189,939	124,604	52%
Price per 1 kg net of VAT, UAH	29.81	27.19	10%
<b>Sunflower oil</b>			
Sales volume, third parties tonnes	342,240	286,745	19%
<b>Soybeans oil</b>			
Sales volume, third parties tonnes	34,150	13,950	145%

As a result of increased production, the aggregate volume of chicken meat sold to third parties increased by 9% during 12M 2016. Export sales in 12M 2016 increased by 52% to 189,939 tonnes, constituting 36% of total poultry sales. During the reporting period (12M 2016), in line with our export diversification strategy, sales to the Middle East countries increased year-over-year by 67%, in the EU by 29%, and in Africa by more than 4 times. As a result of higher exports, domestic sales decreased slightly to 345,038 tonnes in 12M 2016 (12M 2015: 365,212 tonnes).

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

Through 12M 2016, the aggregate average chicken meat price was UAH 29.81 respectively, 10% higher compared to 12M 2015 in Hryvnia terms. The average chicken meat price on the domestic market increased by 14% during 12M 2016 compared to 12M 2015. At the same time the US\$ denominated export price for chicken meat decreased by 16% during 12M 2016 compared to 12M 2015, in line with global commodity trends.

During 12M 2016 MHP's sales of sunflower oil increased by 19% compared to 12M 2015 and reached 342,240 tonnes mainly as a result of increased sale of sunflower cake to third parties as well as an increased percentage of oil extraction. Sales of soybean oil have increased substantially in line with increased production of our soybean crushing plant.

(in mln. US\$, unless indicated otherwise)	12M 2016	12M 2015	% change*
Revenue	970	878	10%
- Poultry and other	678	644	5%
- Vegetable oil	292	234	25%
IAS 41 standard gains/(losses)	5	20	-75%
Gross profit	242	275	-12%
Gross margin	25%	31%	-6 pps
EBITDA	270	343	-21%
EBITDA margin	28%	39%	-11 pps
EBITDA per 1 kg (net of IAS 41)	0.50	0.66	-24%

\* pps – percentage points

In 12M 2016, revenue increased by 10% as a result of the increase in sales volumes of chicken meat and vegetable oil, partly offset by a decrease in international export prices for chicken.

Gross profit of the poultry and related operations segment for 12M 2016 decreased by 12% compared to 12M 2015 mainly as a result of the decrease in sales price (in dollar terms) and the fair value adjustment to parent stock.

EBITDA for 12M 2016 has decreased by 21% , mainly due to decrease in gross profit as a result of lower export prices as well as due to reduction in VAT refunds due to changes in the Ukraine Tax Code that became effective on 1 January 2016.

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

## SEGMENT PERFORMANCE

### Grain growing operations

In 2016 MHP harvested 355,000 hectares of land in Ukraine. MHP's harvest yielded around 2.3 million tons of crops, 24% more than in 2015, mainly as a result of higher yields of corn, soybeans and wheat due to favorable weather conditions during 2016 as well as operational efficiency and employment of best practices.

	2016 <sup>[1]</sup>		2015 <sup>[1]</sup>	
	Production volume	Cropped land	Production volume	Cropped land
	in tonnes	in hectares	in tonnes	in hectares
Corn	1,056,887	123,350	841,745	125,994
Wheat	379,693	58,813	322,055	53,752
Sunflower	218,049	67,399	176,170	57,541
Soybeans	98,607	40,771	56,650	35,831
Rapeseed	68,325	20,069	76,385	22,653
Other <sup>[2]</sup>	529,930	44,598	418,690	44,229
<b>Total</b>	<b>2,351,491</b>	<b>355,000</b>	<b>1,891,695</b>	<b>340,000</b>

<sup>[1]</sup> Only land of grain growing segment;

<sup>[2]</sup> Including barley, rye, sugar beet, sorghum and other and excluding land left fallow as part of crop rotation;

	2016		2015	
	MHP's average <sup>[1]</sup>	Ukraine's average <sup>[1]</sup>	MHP's average <sup>[1]</sup>	Ukraine's average <sup>[1]</sup>
Corn	8.6	6.6	6.7	5.7
Wheat	6.5	4.6	6.0	3.9
Sunflower	3.2	2.2	3.1	2.2
Rapeseed	3.4	2.6	3.4	2.6
Soya	2.4	2.3	1.6	1.9

<sup>[1]</sup> MHP yields are net weight, Ukraine – bunker weight;

(in mln. US unless indicated otherwise)	12M 2016	12M 2015	% change
Revenue	85	117	-27%
IAS 41 standard gains	32	(3)	n/a
Gross profit	107	55	95%
EBITDA	150	94	60%
EBITDA per hectare	423	276	53%

Grain growing segment's revenue for 12M 2016 amounted to US\$ 85 million compared to US\$ 117 million in 12M 2015. The decrease is mainly attributable to lower amounts of crops in stock designated for sale as of 31 December 2015 as a result of low yields in 2015. IAS 41 standard gain for 12M 2016 amounted to US\$ 32 million. The gain represents the effect of revaluation of agricultural produce (sunflower, corn, wheat and soya) remaining in stock as of 31 December 2016. The increase in IAS 41 gains is mainly related to higher stocks as of 31 December 2016 compared to 2015 (due to higher yields and production volume in 2016) as well as higher prices on the domestic market caused by the return of a zero VAT regime for grain exports in 2016.

Grain segment EBITDA for the 12M 2016 increased by 60% compared to 12M 2015 due to higher domestic grain prices (compared to 2015) and higher yields. VAT refunds decreased as a result of changes in tax legislation, although this was partly offset by an increase in grain prices on the domestic market due to the return of the zero VAT regime for grain exports.



# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

## SEGMENT PERFORMANCE

### Other agricultural operations

Meat processing products	12M 2016	12M 2015	% change
Sales volume, third parties tonnes	33,896	24,520	38%
Price per 1 kg net VAT, UAH	42.40	39.28	8%

The main driver of the segment is meat processing operations.

Sales volume of meat processing products substantially increased by 38% year-on-year to 33,896 tonnes in 12M 2016, mainly as a result of a new product promotion strategy and advertisement campaign not only for the product range, but also for the brand.

The average processed meat price increased by 8% year-over-year to UAH 42.40 per kg in 12M 2016, mostly in line with the increase in the price of poultry.

(in mln. US\$, except margin data)	12M 2016	12M 2015	% change
Revenue	80	66	21%
- Meat processing	55	44	25%
- Other	25	22	14%
IAS 41 standard gains	2	3	-33%
Gross profit	13	12	8%
Gross margin	16%	18%	-2 pps
EBITDA	12	11	9%
EBITDA margin	15%	17%	-2 pps

\* pps – percentage points

Segment revenue for the 12M 2016 increased by 21% year-on-year, in line with the increase in sales volume and price in meat processing, to US\$ 80 million. The segment's EBITDA increased to US\$ 12 million in 12M 2016 compared to US\$ 11 million in 12M 2015, an increase by 9% year-on-year, mostly in line with the increase in gross profit.

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

## CURRENT GROUP FINANCIAL POSITION AND CASH FLOW

(in mln. US\$)	12M 2016	12M 2015
Cash from operations	273	335
Change in working capital	52	(144)
<i>inc. PXF financing</i>	(24)	80
<b>Net Cash from operating activities</b>	<b>325</b>	<b>191</b>
Cash used in investing activities	(108)	(163)
Non-cash financing	(4)	(7)
<b>CAPEX</b>	<b>(112)</b>	<b>(170)</b>
Cash from financing activities	(120)	(65)
<i>Inc. Dividends</i>	(84)	(50)
Non-cash financing	4	7
Deposits	-	-
<b>Total financial activities</b>	<b>(116)</b>	<b>(58)</b>
<b>Total change in cash</b>	<b>97</b>	<b>(37)</b>

## DEBT STRUCTURE AND LIQUIDITY

(in mln. US\$)	31 December 2016	30 September 2016	31 December 2015
<b>Total Debt</b>	<b>1,236</b>	<b>1,238</b>	<b>1,279</b>
LT Debt	991	968	1,016
ST Debt	245	270	263
Cash and bank deposits	(155)	(78)	(59)
<b>Net Debt</b>	<b>1,081</b>	<b>1,160</b>	<b>1,220</b>
LTM EBITDA	415	409	436
<b>Net Debt / LTM EBITDA</b>	<b>2.60</b>	<b>2.84</b>	<b>2.80</b>

Cash flow from operations before changes in working capital for 12M 2016 amounted to US\$ 273 million (12M 2015: US\$ 335 million). The lower cash generation compared to EBITDA is mainly attributable to a non-cash IAS 41 gain on revaluation of crops that will be realized in 2017.

Positive cash flow from changes in working capital during 12M 2016 compared to 12M 2015 is mostly related to lower investment in sunflower seed used for poultry feed during 12M 2016 compared to 12M 2015 and reimbursement of VAT receivable in 2016.

During 12M 2016 total CAPEX amounted to US\$ 112 million mainly related to expansion of the Starynska breeding farm as well as rearing sites expansion at Vinnitsa, Myronivka and Oril Leader poultry complexes and purchases of agricultural machinery.

As of 31 December 2016, the Group's Net Debt / LTM EBITDA ratio improved to 2.60 compared with 2.80 as of 31 December 2015, well within the Eurobond covenant limit of 3.0.

Net debt decreased to US\$ 1,081 million compared with US\$ 1,220 million as at 31 December 2015, with cash and bank deposits of US\$ 155 million compared with US\$ 59 million as at 31 December 2015.

Debt structure remained relatively unchanged compared to 31 December 2015, with long-term debt representing about 80% of the total outstanding. The weighted average interest rate was around 8%.

As a hedge for currency risks, revenues from the export of grain, sunflower and soybean oil, sunflower husks and chicken meat are denominated in US Dollars, more than covering debt service expenses. Export revenues for 12M 2016 amounted to US\$ 635 million or 56% of total revenue (US\$ 524 million or 49% of total sales for 12M 2015).

# FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued

## DIVIDENDS

On 16 March 2016, the Board of Directors of MHP S.A. approved payment of an interim dividend of US\$ 0.7529 per share for 2015, equivalent to approximately US\$ 80 million. This was paid to shareholders in March 2016.

On 14 March 2017, the Board of Directors of MHP S.A. approved payment of an interim dividend of US\$ 0.7492 per share, equivalent to approximately US\$ 80 million. According to press release web link: <http://www.mhp.com.ua/en/investor-relations/press-releases>, this will be paid to shareholders on 29 March 2017.

## CHAIRMAN RESIGNATION/ APPOINTMENT

On 19 July, 2016, Mr. Charles Adriaenssen, Chairman of the Board of Directors of MHP S.A. and Chairman of the Nomination and Remuneration Committee, resigned for personal reasons. Dr. John Rich has been named interim Chairman of the Board of Directors of MHP S.A. and Chairman of the Nomination and Remuneration Committee. On 14 March 2017, the Board confirmed Dr John Rich as Chairman of the Board of Directors of MHP S.A. on a permanent basis.

## OUTLOOK

MHP's outlook for the 2016 harvest of winter wheat and winter rapeseeds is positive.

### The main developments in 2017 will be:

- Start of construction of Phase 2, Line 1 of the Vinnytsia complex, to provide 130,000 tonnes additional capacity;
- An increase in export sales of chicken meat across all regions to an expected 220,000 tonnes;
- Market targeting in export sales to ensure the right product mix combined with the optimal geographic allocation;
- Start of construction of an alternative energy project at Vinnytsia.

We are confident that, with our vertically integrated business model, we will continue to deliver strong financial results, supported by a significant and growing share of hard currency revenues from exports of chicken, oils and grain.

# STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the financial position of MHP S.A. and its subsidiaries (the "Group" or the "Company") as of 31 December 2016 and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

In preparing the consolidated financial statements, the Board of Directors is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

The Board of Directors, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorized for issue by the Board of Directors on 14 March 2017.

## **Board of Directors' responsibility statement**

We confirm that, to the best of our knowledge, the Consolidated Financial Statements as of and for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings included in the consolidation taken as a whole. We also confirm that, to the best of our knowledge, the 2016 Director's Report and Consolidated Financial Statements include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

### **On behalf of the Board:**

Chief Executive Officer      Yuriy Kosyuk

Chief Financial Officer      Viktoria Kapelyushnaya

# INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MHP S.A. 5, rue Guillaume  
Kroll L-1882 Luxembourg

## *Report on the consolidated financial statements*

Following our appointment by the General Meeting of the Shareholders, we have audited the accompanying consolidated financial statements of MHP S.A. and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Responsibility of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Responsibility of the réviseur d'entreprises agréé**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the Réviseur d'Entreprises Agréé's judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises Agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MHP S.A. and its subsidiaries as of December 31, 2016, and of its consolidated financial performance and its consolidated statement of cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, including the Corporate Governance section of the management report, but does not include the consolidated financial statements, the annual accounts of the parent company, and our reports of Réviseur d'Entreprises Agréé 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.

# INDEPENDENT AUDITOR'S REPORT

to the Shareholders of MHP S.A. 5, rue Guillaume  
Kroll L-1882 Luxembourg

*Continued*

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 this fact. We have nothing to report in this regard.

## **Other matter**

The Corporate Governance overview of the director's report includes the information required by Article 68bis paragraph (1) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

## **Report on other legal and regulatory requirements**

The director's report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and included in the Corporate Governance overview of the director's report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

For Deloitte Audit, Cabinet de Révision Agréé

John Psaila, Réviseur d'Entreprises Agréé  
Partner

March 14, 2017



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continuing operations	Notes	2016	2015
Revenue	6	1,135,462	1,061,915
Net change in fair value of biological assets and agricultural produce		38,894	19,851
Cost of sales	7	(812,250)	(739,436)
<b>Gross profit</b>		<b>362,106</b>	<b>342,330</b>
Selling, general and administrative expenses	8	(78,773)	(72,329)
VAT refunds and other government grants income	9	34,056	75,435
Other operating (expense)/income, net		(1,125)	1,315
Impairment of property, plant and equipment	12	(1,443)	-
<b>Operating profit</b>		<b>314,821</b>	<b>346,751</b>
Finance income		2,234	2,567
Finance costs	10	(106,843)	(105,571)
Loss on disposal of subsidiaries	2	-	(4,725)
Foreign exchange loss, net	32	(145,217)	(389,557)
Other expenses, net		(9,289)	(3,346)
<b>Other expenses, net</b>		<b>(259,115)</b>	<b>(500,632)</b>
<b>Profit/(Loss) before tax</b>		<b>55,706</b>	<b>(153,881)</b>
Income tax benefit	11	13,080	41,142
<b>Profit/(Loss) for the period from continuing operations</b>		<b>68,786</b>	<b>(112,739)</b>
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	2	(9,538)	(12,987)
<b>Profit/(Loss) for the period</b>		<b>59,248</b>	<b>(125,726)</b>

The accompanying notes on the pages 53 to 110 form an integral part of this Annual Report.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

	Notes	2016	2015
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Effect of revaluation of property, plant and equipment	12	113,317	224,142
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income	11	(16,143)	(30,842)
Items that may be reclassified to profit or loss:			
Cumulative translation difference		(51,918)	(292,103)
Other comprehensive income/(loss)		45,256	(98,803)
Total comprehensive income/(loss) for the year		104,504	(224,529)
Profit/(Loss) attributable to:			
Equity holders of the Parent		53,452	(133,399)
Non-controlling interests	22	5,796	7,673
		59,248	(125,726)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Parent		97,302	(212,847)
Non-controlling interests		7,202	(11,682)
		104,504	(224,529)
Earnings/(loss) per share from continuing and discontinued operations			
Basic and diluted earnings/(loss) per share (USD per share)		0.50	(1.26)
Earnings/(loss) per share from continuing operations			
Basic and diluted earnings/(loss) per share (USD per share)	34	0.60	(1.13)

The accompanying notes on the pages 53 to 110 form an integral part of this Annual Report.

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

	Notes	31 December 2016	31 December 2015
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	12	1,180,334	1,258,250
Land lease rights	13	43,845	46,252
Deferred tax assets	11	1,561	5,740
Non-current biological assets	14	14,558	15,204
Long-term bank deposits		577	4,125
Other non-current assets		13,554	9,241
		<b>1,254,429</b>	<b>1,338,812</b>
Current assets			
Inventories	15	187,332	279,028
Biological assets	14	116,214	139,800
Agricultural produce	16	167,389	120,574
Other current assets, net		25,424	27,345
Taxes recoverable and prepaid	17	31,235	72,031
Trade accounts receivable, net	18	50,868	38,800
Cash and cash equivalents	19	154,570	59,343
Assets classified as held for sale	20	88,396	-
		<b>821,428</b>	<b>736,921</b>
<b>TOTAL ASSETS</b>		<b>2,075,857</b>	<b>2,075,733</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Share capital	21	284,505	284,505
Treasury shares	2	(48,503)	(56,053)
Additional paid-in capital		175,291	178,192
Revaluation reserve	12	570,649	567,525
Retained earnings		719,340	645,020
Translation reserve		(1,024,916)	(974,467)
Equity attributable to equity holders of the Parent		<b>676,366</b>	<b>644,722</b>
Non-controlling interests	22	16,698	28,127
Total equity		<b>693,064</b>	<b>672,849</b>
Non-current liabilities			
Bank borrowings	23	259,567	278,131
Bonds issued	24	725,361	728,530
Finance lease obligations	25	5,581	9,595
Deferred tax liabilities	11	11,264	13,227
		<b>1,001,773</b>	<b>1,029,483</b>
Current liabilities			
Trade accounts payable	26	46,508	47,669
Other current liabilities	27	61,766	39,320
Bank borrowings	23	236,807	249,057
Accrued interest	23, 24	22,731	23,328
Finance lease obligations	25	8,044	14,027
Liabilities directly associated with assets classified as held for sale	20	5,164	-
		<b>381,020</b>	<b>373,401</b>
<b>TOTAL LIABILITIES</b>		<b>1,382,793</b>	<b>1,402,884</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,075,857</b>	<b>2,075,733</b>

On behalf of the Board:  
Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

	Share	Treasury shares	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total	Non-controlling interests	Total equity
Balance at 31 December 2014	284,505	(67,741)	181,982	646,049	547,994	(710,372)	882,417	63,105	945,522
(Loss)/profit for the year	-	-	-	-	(133,399)	-	(133,399)	7,673	(125,726)
Other comprehensive income/(loss)	-	-	-	187,914	-	(267,362)	(79,448)	(19,355)	(98,803)
Total comprehensive income/(loss) for the year	-	-	-	187,914	(133,399)	(267,362)	(212,847)	(11,682)	(224,529)
Transfer from revaluation reserve to retained earnings	-	-	-	(36,825)	36,825	-	-	-	-
Dividends declared by the Parent	-	-	-	-	(50,000)	-	(50,000)	-	(50,000)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(408)	(408)
Non-controlling interests acquired (Note 2)	-	11,688	(3,790)	-	13,987	-	21,885	(21,885)	-
Derecognition of interests in subsidiaries (Note 2)	-	-	-	(9,738)	9,738	3,267	3,267	(1,003)	2,264
Translation differences on revaluation reserve	-	-	-	(219,875)	219,875	-	-	-	-
Balance at 31 December 2015	284,505	(56,053)	178,192	567,525	645,020	(974,467)	644,722	28,127	672,849
(Loss)/profit for the year	-	-	-	-	53,452	-	53,452	5,796	59,248
Other comprehensive income/(loss)	-	-	-	94,299	-	(50,449)	43,850	1,406	45,256
Total comprehensive income/(loss) for the year	-	-	-	94,299	53,452	(50,449)	97,302	7,202	104,504
Transfer from revaluation reserve to retained earnings	-	-	-	(44,627)	44,627	-	-	-	-
Dividends declared by the Parent (Note 30)	-	-	-	-	(80,000)	-	(80,000)	-	(80,000)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(4,289)	(4,289)
Non-controlling interests acquired (Note 2)	-	7,550	(2,901)	-	9,693	-	14,342	(14,342)	-
Translation differences on revaluation reserve	-	-	-	(46,548)	46,548	-	-	-	-
Balance at 31 December 2016	284,505	(48,503)	175,291	570,649	719,340	(1,024,916)	676,366	16,698	693,064

The accompanying notes on the pages 53 to 110 form an integral part of this Annual Report.

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoriya Kapelyushnaya

# CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

	Notes	2016	2015
<b>Operating activities</b>			
Profit /(loss) before tax		46,582	(166,091)
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortization expense	5, 12	105,865	94,665
Net change in fair value of biological assets and agricultural produce	5	(36,067)	(21,786)
Loss on disposal/(Gain) from acquisition of subsidiaries	2	-	4,725
Change in allowance for irrecoverable amounts and direct write-offs		(167)	157
Loss/(reversal) of impairment of property, plant and equipment, net		8,308	-
Loss on disposal of property, plant and equipment and other non-current assets		1,521	461
Finance income		(2,281)	(2,567)
Finance costs	10	106,666	105,571
Withholding tax related to interest and payment of dividends		5,478	1,294
Non-operating foreign exchange loss, net		142,162	418,926
Operating cash flows before movements in working capital		378,067	435,355
Working capital adjustments			
Change in inventories		57,327	(154,396)
Change in biological assets		(4,029)	(38,324)
Change in agricultural produce		(36,050)	(9,279)
Change in other current assets, net		(822)	(9,464)
Change in taxes recoverable and prepaid, net		32,443	(46,592)
Change in trade accounts receivable, net		(18,415)	8,802
Change in other liabilities		37,301	7,321
Change in trade accounts payable		9,020	16,473
Cash generated by operations		454,842	209,896
Interest received		2,234	2,314
Interest paid		(105,139)	(99,182)
Withholding tax related to interest paid		(2,073)	(1,294)
Income taxes paid		(334)	(1,589)
Net cash flows from operating activities		349,530	110,145
<b>Investing activities</b>			
Purchases of property, plant and equipment		(91,651)	(145,255)
Purchases of other non-current assets		(6,021)	(1,004)
Purchase of land lease rights		(7,755)	(6,644)
Acquisition of subsidiaries, net of cash acquired		-	(8,633)
Proceeds from disposals of property, plant and equipment		1,196	779
Purchases of non-current biological assets		(1,704)	(1,588)
Withdrawals of short-term and long-term deposits		418	252
Investments in short-term deposits		(408)	43
Loans provided to by employees, net		(55)	(641)
Loans provided to by related parties, net		(1,818)	(73)
Net cash flows used in investing activities		(107,798)	(162,850)

The accompanying notes on the pages 53 to 110 form an integral part of this Annual Report.

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued) for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

	Notes	2016	2015
<b>Financing activities</b>			
Proceeds from bank borrowings		208,396	556,335
Repayment of bank borrowings		(240,926)	(251,547)
Repayment of bonds		-	(219,567)
Transaction costs related to bank loans received		-	(1,051)
Repayment of finance lease obligations		(14,651)	(18,327)
Dividends paid to shareholders	28, 30	(80,000)	(49,996)
Dividends paid by subsidiaries to non-controlling shareholders	28, 30	(4,289)	(408)
Withholding tax related to dividends paid		(3,403)	-
Consent payment related to corporate bonds	24	(9,148)	-
<b>Net cash flows from/(used in) financing activities</b>		<b>(144,021)</b>	<b>15,439</b>
Net increase/(decrease) in cash and cash equivalents		97,711	(37,266)
Net foreign exchange difference		(3,974)	(3,062)
Cash and cash equivalents at 1 January		59,343	99,628
Cash and cash equivalents attributable to disposal group classified as held for sale		(2,098)	
Cash and cash equivalents at 31 December	19	150,982	59,300
<b>Non-cash transactions</b>			
Effect of revaluation of property, plant and equipment	12	105,009	224,142
Additions of property, plant and equipment under finance leases		3,907	3,059
Property, plant and equipment purchased for credit		-	4,383

During the year ended 31 December 2016, other non-cash transactions included acquisitions and disposals of subsidiaries as well as change in non-controlling interest (Note 2).

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoriya Kapelyushnaya



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 1. Corporate information

MHP S.A. (the "Parent" or "MHP S.A."), a limited liability company (société anonyme) registered under the laws of Luxembourg, was formed on 30 May 2006. MHP S.A. was formed to serve as the ultimate holding company of PJSC "Myronivsky Hliboproduct" ("MHP") and its subsidiaries. Hereinafter, MHP S.A. and its subsidiaries are referred to as the "MHP S.A. Group" or the "Group". The registered address of MHP S.A. is 5, rue Guillaume Kroll, L-1882 Luxembourg.

The controlling shareholder of MHP S.A. is the Chief Executive Officer of MHP S.A. Mr. Yuriy Kosyuk (the "Principal Shareholder"), who owns 100% of the shares of WTI Trading Limited ("WTI"), which is the immediate majority shareholder of MHP S.A.

The principal business activities of the Group are poultry and related operations, grain growing, as well as other agricultural operations (meat processing, cultivation and selling fruits and producing beef and meat products ready for consumption). The Group's poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age ("grow-out"), processing and marketing of branded chilled products, and include the production and sale of chicken products, sunflower oil, mixed fodder and convenience food products. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, beef, milk, goose meat, foie gras, fruits and feed grains. During the year ended 31 December 2016 the Group employed about 31,000 people (2015: 30,900 people). The primary subsidiaries, the principal activities of the companies forming the Group and the Parent's effective ownership interest as of 31 December 2016 and 2015 were as follows:

Name	Country of registration	Year established/ acquired	Principal activities	2016	2015
Raftan Holding Limited	Cyprus	2006	Sub-holding Company	100.0%	100.0%
Larontas Limited	Cyprus	2015	Sub-holding Company	100.0%	100.0%
MHP	Ukraine	1998	Management, marketing and sales	99.9%	99.9%
Myronivsky Zavod po Vygotvornnyu Krup i Kombikormiv oil production	Ukraine	1998	Fodder and sunflower  Chicken farm	88.5%  99.9%	88.5%  99.9%
Vinnytska Ptahofabryka	Ukraine	2011	Chicken farm	99.9%	99.9%
Peremoga Nova	Ukraine	1999	Chicken farm	99.9%	99.9%
Druzhba Narodiv Nova	Ukraine	2002	Chicken farm	100.0%	100.0%
Oril-Leader	Ukraine	2003	Chicken farm	99.9%	99.9%
Tavriysky Kombikormovy Zavod	Ukraine	2004	Fodder production	99.9%	99.9%
Myronivska Ptahofabryka	Ukraine	2004	Chicken farm	99.9%	99.9%
Starynska Ptahofabryka	Ukraine	2003	Breeder farm	100.0%	94.9%
Ptahofabryka Snyatynska Nova	Ukraine	2005	Geese breeder farm	99.9%	99.9%
Zernoproduct	Ukraine	2005	Grain cultivation	99.9%	89.9%
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage, sunflower oil production	99.9%	99.9%
Druzhba Narodiv	Ukraine	2006	Cattle breeding, plant cultivation	99.9%	99.9%
NPF Urozhay	Ukraine	2006	Grain cultivation	99.9%	99.9%
Agrofort	Ukraine	2006	Grain cultivation	86.1%	86.1%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	99.9%	99.9%
Ukrainian Bacon	Ukraine	2008	Meat processing	79.9%	79.9%
AgroKryazh	Ukraine	2013	Grain cultivation	99.9%	99.9%
Baryshevka	Ukraine	2013	Grain cultivation	51.0%	51.0%
Zakhid-Agro MHP	Ukraine	2015	Grain cultivation	100.0%	100.0%
Scylla Capital Limited	British Virgin Islands	2014	Trading in sunflower oil and poultry meat	100.0%	100.0%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 1. Corporate information (continued)

The Group's operational facilities are located in different regions of Ukraine, including Kyiv, Cherkasy, Dnipropetrovsk, Donetsk, Lviv, Ternopil, Ivano-Frankivsk, Vinnytsia, Kherson, Sumy, Khmelnytsk regions and Autonomous Republic of Crimea.

## 2. Changes in the group structure

### Plan to dispose of the Crimean companies

Board of Directors has authorized the management of the Group to pursue negotiations in relation to a planned disposal of the Crimean companies. At the end of December 2016, by virtue of a Board resolution, management of the Group committed to a plan to dispose of the following Group companies that are located in the Autonomous Republic of Crimea ("Crimean companies"):

- Druzhba Narodiv Nova – engaged in the production and sale of chicken meat products in poultry and related operation segment;
- Druzhba Narodiv – engaged in the production and sale of sausages and cooked meats in other agricultural segment; and
- Crimea Fruit Company – engaged in the cultivating and sale of fruits in other agricultural segment.

At the year-end date the management of the Group were in negotiation with potential buyers for its Crimean companies and expected to complete the sale shortly after year-end. The sale was consummated on 17 February 2017 (Note 35). The Group has recognised impairment losses in respect of the Property, plant and equipment, immediately prior to classifying the assets and liabilities of disposal group as held for sale (Note 20). No impairment loss was recognised on classification disposal group as held for sale as the management of the Group expect that the fair value less costs to sell equals or is not less than the carrying amount.

### Analysis of profit for the year from discontinued operations

The combined results of the discontinued operations set out below. The comparative losses and cash flows from discontinued operations have been represented to include those operations classified as discontinued in the current year.

### Results for the year from discontinued operations

	2016	2015
Revenue	105,574	121,368
Other gains	10,357	1,935
	<b>115,931</b>	<b>123,303</b>
Expenses	(118,190)	(135,513)
Loss on impairment of property, plant and equipment, net	(6,865)	-
Loss before tax	(9,124)	(12,210)
Income expense	(414)	(777)
Loss for the year from discontinued operations attributable to:		
Equity holders of the Parent	(10,383)	(13,657)
Non-controlling interests	845	670
	<b>(9,538)</b>	<b>(12,987)</b>

### Cash flows from discontinued operations

	2016	2015
Net cash inflows from operating activities	1,940	645
Net cash outflows from investing activities	(3,475)	(1,671)
Net cash inflows from financing activities	-	-
Net decrease in cash and cash equivalents	<b>(1,535)</b>	<b>(1,026)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 2. Changes in the group structure (continued)

The Crimea business has been classified and accounted for at 31 December 2016 as a disposal group held for sale (Note 20). Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

### Acquisitions

#### Agrokultura

In May 2015 the Group signed an asset swap agreement with Agrokultura AB, whereby the equity ownership in Voronezh Agro Holding was swapped with the equity ownership in a group of companies Agrokultura Ukraine. The transaction was completed with effective transfer of control in June 2015.

Voronezh Agro Holding, is a grain growing business, cultivating a land bank of about 40,000 hectares in the Voronezh region of the Russian Federation, with approximately 150,000 tonnes of grain storage capacities.

Group of companies Agrokultura Ukraine is a grain growing business cultivating a land bank of about 60,000 hectares in Lviv, Ternopil and Ivano-Frankivsk regions of Ukraine, with approximately 90,000 tonnes of grain storage capacities.

The following table presents the provisional fair value at the date of acquisition of identifiable assets and liabilities of group of companies Agrokultura Ukraine acquired:

	2015
Property, plant and equipment (Note 12)	27,194
Land lease rights (Note 13)	25,663
Other non-current assets less non-current liabilities	(412)
Deferred tax liability	(1,834)
Biological assets (Note 14)	13,977
Current assets less current liabilities	654
Cash and cash equivalents	115
Total consideration received	65,357

The following table presents the carrying amount of identifiable assets and liabilities of Voronezh Agro Holding at the date of disposal:

	2015
Property, plant and equipment (Note 12)	46,754
Other non-current assets less non-current liabilities	(5)
Biological assets (Note 14)	15,844
Other current assets less current liabilities	2,920
Cash and cash equivalents	2,305
Net assets disposed	67,818

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 2. Changes in the group structure (continued)

The following table presents the net result of the transaction:

	2015
Total consideration received	65,357
Net assets disposed	(67,818)
Non-controlling interest disposed	1,003
Cumulative translation reserve in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control in subsidiary	(3,267)
Loss on disposal	(4,725)

As acquisition of group of companies Agrokultura Ukraine was conducted through exchange of equity interest, the fair value of the equity interest was determined by the amount of consideration received in group of companies Agrokultura Ukraine.

Cumulative exchange loss in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary relates to the reclassification of translation difference on consolidation of foreign subsidiaries, previously recognised in other comprehensive loss.

### **Dnister-Agro**

In July 2015 the Group acquired from third parties a 100% interest in a group of companies "Dnister-Agro", a grain growing business, cultivating a land bank of approximately 10,000 hectares in the Vinnytsia region of Ukraine. The transaction was accounted for under the acquisition method.

The following table presents the provisional fair value at the date of acquisition of identifiable assets and liabilities acquired:

	Dnister-Agro
<b>Provisional fair value of identifiable assets and liabilities:</b>	
Property, plant and equipment (Note 12)	669
Land lease rights (Note 13)	4,999
Inventories and biological assets	3,779
Trade and other payables	(5,070)
Total identifiable net assets at fair value	4,377
Goodwill from acquisition of subsidiaries	2,066
Total Cash consideration due and payable	(6,443)
Cash paid	(6,490)
Cash acquired	47

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 2. Changes in the group structure (continued)

The goodwill of USD 2,066 thousand arising from the acquisition of Dniester-Agro consists mainly of the synergies and economies of scale expected from combining the operations of Dniester-Agro and other grain-growing companies of the Group in the nearby region. The advantage of this acquisition giving rise to value is the high concentration of sectors (higher economies on logistics and fuel) and good integration of land to other assets of the Group.

Since 1 January 2015 and up to the date of disposal, the disposed group of companies ("Voronezh Agroholding") contributed USD 18,790 thousand of Revenue and USD 5,046 thousand of profit to the consolidated results of the Group.

From the date of acquisition, the acquired group of companies contributed USD 16,036 thousand of Revenue and USD 1,291 thousand of loss to the Consolidated results of the Group. Had the transactions related to acquisitions as discussed above, occurred on 1 January 2015, "Pro forma" revenue and loss for the year ended 31 December 2015 would have been USD 21,469 thousand and USD 4,589 thousand, respectively.

In 2015 the Group made certain other insignificant acquisitions during each of the periods presented. These acquisitions have been accounted for based on the Group's accounting policies. The impact of these acquisitions was not significant to the consolidated financial statements of the Group, either individually or in aggregate.

### Changes in non-controlling interests in subsidiaries

In December 2016 the Group increased its effective ownership interest in Starynska breeding farm to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 531,395 treasury shares held by the Group. As of 31 December 2016, these shares were in the process of registration as owned by new shareholder. The difference between fair value of shares transferred and their carrying value in the amount of USD 2,901 thousand was recognized as an adjustment to additional paid-in capital (Note 22).

In December 2015 the Group increased its effective ownership interest in Zernoproduct to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 830,511 treasury shares held by the Group. The difference between fair value of shares transferred and their carrying value in the amount of USD 3,790 thousand was recognized as an adjustment to additional paid-in capital.

## 3. Summary of significant accounting policies

### Basis of presentation and accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The operating subsidiaries of the Group maintain their accounting records under Ukrainian Accounting Standards ("UAS").

UAS principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' UAS records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

### Basis of preparation

The consolidated financial statements of the Group are prepared on the basis of historical cost, except for revalued amounts of buildings and structures, grain storage facilities, production machinery, vehicles and agricultural machinery, biological assets, agricultural produce, and certain financial instruments, which are carried at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Adoption of new and revised International Financial Reporting Standards

The following standards were adopted by the Group on 1 January 2016:

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IFRSs - «Annual Improvements to IFRSs 2012–2014 Cycle» (amendments to IFRS 3, IFRS 8, IFRS 13, IFRS 21, IAS 16, IAS 24, IAS 39)

The adoption of new or revised standards did not have any material effect on the consolidated financial position or performance of the Group and any disclosures in the Group's consolidated financial statements, except Amendments to IAS 16 and IAS 41: Bearer Plants. The Group has retrospectively applied these amendments for the first time in the current year. The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. Such bearer plant has been reclassified from biological assets to property, plant and equipment in the amount of USD 9,489 thousand and USD 8,578 thousand for the years ended 31 December 2016 and 2015, respectively.

### Standards and Interpretations in issue but not effective

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Amendments to IFRSs - "Annual Improvements to IFRSs 2014 – 2016 Cycle"	1 January 2017
IFRS 9 "Financial Instruments" <sup>(1)</sup>	1 January 2018
IFRS 15 "Revenue from contracts with customers" including amendments to IFRS 15: Effective date of IFRS 15 <sup>(1)</sup>	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

IFRS 16 introduces a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance lease (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognised for all leases by lessees (i.e. on balance sheet) except for short-term leases and leases of low value assets.

<sup>(1)</sup>- Standards have been endorsed for use in the European Union.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Standards and Interpretations in issue but not effective (continued)

As of 31 December 2016, the Group has non-cancellable operating lease commitments in amount of USD 117,920 thousand. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Management are currently assessing its potential impact and expects to be able to provide such information year-end 2017. It is not practicable to provide a reasonable financial estimate of the effect until the such detailed analysis will be completed.

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes the classification and measurement of financial assets and financial liabilities; Impairment methodology and Hedge accounting.

With respect to the classification and measurement under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value through profit and loss or fair value through other comprehensive income.

The impairment model under IFRS 9 introduces a new impairment model based on expected loss, rather than incurred loss as per IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses.

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overvalued and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The Board of Directors of the Company anticipate that the application of IFRS 9 in the future will not have a material impact on financial instruments because the Company does not use a hedge accounting, but the application of the new standard may have some impact on amounts of bad debt provision for accounts receivable due to introduction of a new impairment model based on expected credit losses, rather than incurred losses. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review. Management expects to be able to provide such information at year-end 2017.

IASB has published a new Standard, IFRS 15 Revenue from Contracts with Customers.

The new Revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Standards and Interpretations in issue but not effective (continued)

- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard is effective for annual periods beginning on or after January 1, 2018 (as amended in September 2015). It applies to new contracts created on or after the effective date and to existing contracts that are not yet complete as of the effective date. Therefore, the current year figures reported in the first year of adoption will be prepared as if the Standard's requirements had always been applied.

The Board of Directors of the Company anticipate that the application of IFRS 15 in the future will not have a material impact on sales but in respect of export sales it may be necessary to recognize a separate performance obligation and allocate part of the transaction price to a distinct "shipping and risk coverage" service. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review of a wide range of existing contracts.

For other Standards and Interpretations management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

The standard is effective for annual periods beginning on or after 1 January 2018 (as amended in September 2015). It applies to new contracts created on or after the effective date and to existing contracts that are not yet complete as of the effective date. Therefore, the current year figures reported in the first year of adoption will be prepared as if the Standard's requirements had always been applied.

The Board of Directors of the Company anticipate that the application of IFRS 15 in the future will not have a material impact on sales but in respect of export sales it may be necessary to recognize a separate performance obligation and allocate part of the transaction price to a distinct "shipping and risk coverage" service. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review of a wide range of existing contracts. Management expects to be able to provide such information at year-end 2017.

For other Standards and Interpretations management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

### Functional and presentation currency

The functional currency of Ukrainian, Cyprus and Luxemburg companies of the Group is the Ukrainian Hryvnia ("UAH"); the functional currency of the Autonomous Republic of Crimea companies of the Group is the Russian Rouble ("RUB"). Transactions in currencies other than the functional currency of the entities concerned are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. All realized and unrealized gains and losses arising on exchange differences are recognised in the consolidated statement of comprehensive income for the period.

These consolidated financial statements are presented in US Dollars ("USD"), which is the Group's presentation currency.

The results and financial position of the Group are translated into the presentation currency using the following procedures:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate as of the reporting date of that statement of financial position;
- Income and expenses for each consolidated statement of comprehensive income are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognized as a separate component of equity.
- All equity items, except for the revaluation reserve, are translated at the historical exchange rate. The revaluation reserve is translated the closing rate as of the date of the statement of financial position.

For practical reasons, the Group translates items of income and expenses for each period presented in the financial statements using the quarterly average exchange rates, if such translations reasonably approximate the results translated at exchange rates prevailing at the dates of the transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Functional and presentation currency (continued)

The relevant exchange rates were:

Currency	Closing rate as of 31 December 2016	Average for 2016	Closing rate as of 31 December 2015	Average for 2015
UAH/USD	27.1909	25.5458	24.0007	21.8290
UAH/EUR	28.4226	28.2828	26.2231	24.2054
UAH/RUB	0.4511	0.3832	0.3293	0.3617

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the MHP S.A. and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All significant intercompany transactions, balances and unrealized gains or losses on transactions are eliminated on consolidation, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those adopted by the Group.

### Accounting for acquisitions

The acquisitions of subsidiaries from third parties are accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values.

The consideration transferred by the Group is measured at fair value, which is the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquired subsidiary and the equity interests issued by the Group in exchange for control of the subsidiary. Acquisition-related costs are generally recognized in the statement of comprehensive income as incurred.

When the consideration transferred by the Group in a business combination includes assets and liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which may not exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the subsidiary's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests, if any, are measured at fair value or, when applicable, on the basis specified in other IFRS standards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Accounting for acquisitions (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired subsidiary, and the fair value of the Group's previously held equity interest in the acquired subsidiary (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of non-controlling interests in the subsidiary and the fair value of the Group's previously-held interest in the subsidiary (if any), the excess is recognized in the consolidated statement of comprehensive income, as a bargain purchase gain. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent.

When an acquisition of a legal entity does not constitute a business, the cost of the group of assets is allocated between the individual identifiable assets in the group based on their relative fair values.

### Accounting for transactions with entities under common control

The assets and liabilities of subsidiaries acquired from entities under common control are recorded in these consolidated financial statements at pre-acquisition carrying values. Any difference between the carrying value of net assets of these subsidiaries, and the consideration paid by the Group is accounted for in these consolidated financial statements as an adjustment to shareholders' equity. The results of the acquired entity are reflected from the date of acquisition.

Any gain or loss on disposals to entities under common control are recognized directly in equity and attributed to owners of the Parent.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Borrowing costs

Borrowing costs include interest expense, finance charges on finance leases and other interest-bearing long-term payables and debt service costs.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

### Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements. Rather, they are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognized only when the contingency is resolved.

### Segment information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports provided to the Group's chief operating decision maker ("CODM"). The Group has identified its top management team as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified the following reportable segments:

- Poultry and related operations;
- Grain growing operations;
- Other agricultural operations.

Reportable segments represent the Group's principal business activities. Poultry and related operations segment include sales of chicken meat, sales of by-products such as vegetable oil and related products and other poultry-related products. CODM is considering oil extraction as a part of mixed fodder production rather than a separate line of business as primarily quality and effectiveness of mixed fodder production prevails over oil output. Grain growing operations include sale of grain other than feed grains and green-fodder. Other agricultural operations segment primarily includes sales of other than poultry meat and meat processing products, fruit, feed grains and milk.

The Group does not present information on segment assets and liabilities as the CODM does not review such information for decision-making purposes.

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Revenue recognition

The Group generates revenue primarily from the sale of agricultural products to the end customers. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably and it is probable that collection will occur and costs incurred or to be incurred in respect of the transaction can be measured reliably. The point of transfer of risk, which may occur at delivery or shipment, varies for contracts with different types of customers.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

When goods are exchanged or swapped for goods which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold in exchange for dissimilar goods, the exchange is regarded as a transaction which generates revenue, and revenue is measured at the fair value of the goods received, adjusted by the amount of any cash or cash equivalents transferred.

### VAT refunds and other government grants

The Group's companies are subject to special tax treatment for value-added tax ("VAT"). The Group's entities, which qualify as agricultural producers, are entitled to retain the net VAT payable. VAT amounts payable are not transferred to the State, but credited to the entity's separate special account to support the agriculture activities of the Group. Net result on VAT operations, calculated as excess of VAT liability over VAT credit is charged to profit or loss. VAT receivable exceeding VAT liability is used as a reduction in tax liabilities of the next period.

Government grants are recognized as income over the periods necessary to match them with the related costs, or as an offset against finance costs when received as compensation for the finance costs for agricultural producers. To the extent the conditions attached to the grants are not met at the reporting date, the received funds are recorded in the Group's consolidated financial statements as deferred income.

Other government grants are recognized at the moment when the decision to disburse the amounts to the Group is made.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

### Property, plant and equipment

All groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses, except land and other fixed assets that are carried at historical cost less accumulated depreciation.

The historical cost of an item of property, plant and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Group; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, (d) the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period; and (e) for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy.

Subsequently capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the consolidated statement of comprehensive income as incurred.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Property, plant and equipment (continued)

The Group moved to revaluation model for Auxiliary and other machinery and utilities and infrastructure during the year ended 31 December 2016. For all groups of property, plant and equipment carried at revaluation the model revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve. However, such increase is recognized in the statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the statement of comprehensive income.

However, such decrease is debited directly to the revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Depreciation on revalued assets is charged to the statement of comprehensive income. The excess of depreciation charge on the revalued asset over the depreciation that would have been charged based on the historical cost of the asset is transferred from revaluation reserve directly to retained earnings over the assets useful life. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Depreciation of property, plant and equipment is charged so as to write off the depreciable amount over the useful life of an asset and is calculated using a straight line method. Useful lives of the groups of property, plant and equipment are as follows:

<b>Buildings and structures</b>	<b>15 - 65 years</b>
<b>Grain storage facilities</b>	<b>20 - 60 years</b>
<b>Production machinery</b>	<b>10 - 25 years</b>
<b>Auxiliary and other machinery</b>	<b>5 - 25 years</b>
<b>Utilities and infrastructure</b>	<b>20 - 50 years</b>
<b>Vehicles and agricultural machinery</b>	<b>5 - 15 years</b>
<b>Other fixed assets</b>	<b>3 - 10 years</b>

Depreciable amount is the cost of an item of property, plant and equipment, or revalued amount, less its residual value. The residual value is the estimated amount that the Group would currently obtain from disposal of the item of property, plant and equipment, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Property, plant and equipment (continued)

The residual value, the useful lives and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for prospectively as a change in an accounting estimate.

The gain or loss arising on sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Construction in progress comprises costs directly related to the 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 construction in progress 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.

### Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, consist primarily of land lease rights.

Land lease rights acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Land lease rights acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, land lease rights acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as land lease rights acquired separately.

Amortization of intangible assets is recognized on a straight line basis over their estimated useful lives. For land lease rights, the amortization period varies from 3 to 15 years.

The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the statement of comprehensive income. An impairment loss recognized on goodwill is not reversed in subsequent periods.

### Income taxes

Income taxes have been computed in accordance with the laws currently enacted or substantially enacted in jurisdictions where operating entities are located. Income tax is calculated based on the results for the year as adjusted for items that are non-assessable or non-tax deductible. It is calculated using tax rates that have been enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 11).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Withholding tax

Passive income (dividends, interest, royalties, etc) from Ukrainian sources that is paid to non-resident entities is generally subject to withholding tax (WHT).

The WHT tax rates 15% (base rates) should be applied unless more favorable rates (reduced rates) are provided by a relevant double taxation treaty (DTT) signed between Ukraine and foreign country.

In order to benefit from reduced tax rate in DTT, the non-resident recipient of income must confirm its tax residency and should also be considered the beneficial owner of such income.

Tax residency status should be confirmed by tax residency certificate issued by tax authorities of the recipient's country of residence for tax year in which the income is paid.

According to the Tax Code of Ukraine, agents, nominee holders, and other intermediaries in respect of received income cannot be beneficial owners of income sourced in Ukraine and are not entitled to favorable treaty provisions. The Ukrainian tax authorities use both legal and economic substance approach for the beneficial owner definition considering also economic substance of the transaction and the substance of the recipient of income.

As result, in order to prove the beneficial ownership status of the non-resident recipient, there should be additional documental support to justify the substance of transactions.

No formal requirements exist to the above documents and, in practice, such documents may include evidence that the recipient of income has a real office, employees and that the recipient is fully entitled to manage and dispose the received income without limitations.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise raw materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present locations and condition.

Cost is calculated using the FIFO (first-in, first-out) method. Net realizable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Agriculture related production process results in production of joint products: main and by-products. A by-product arising from the process is measured at net realizable value and this value is deducted from the cost of the main product.

### Biological assets and agricultural produce

Agricultural activity is defined as a biological transformation of biological assets for sale into agricultural produce or into additional biological assets. The Group classifies hatchery eggs, live poultry and other animals and plantations as biological assets.

The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognized in the consolidated statement of comprehensive income. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Biological assets and agricultural produce (continued)

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each reporting date as a fair value adjustment.

The change in this adjustment from one period to another is recognized as "Net change in fair value of biological assets and agricultural produce" in the statement of comprehensive income.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in the statement of comprehensive income. Based on the above policy, the principal groups of biological assets and agricultural produce are stated as follows:

### Biological Assets

#### (I) Broiler chickens

Broilers comprise poultry held for chicken meat production. The fair value of broilers is determined by reference to the cash flows that will be obtained from the sales of 42-day aged chickens, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

#### (II) Breeders

The fair value of breeders is determined using the discounted cash flow approach based on hatchery eggs' market prices.

#### (III) Cattle and pigs

Cattle and pigs comprise cattle held for regeneration of livestock population and animals raised for milk and beef and pork meat production. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. Cattle, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate.

#### (IV) Crops in fields

The fair value of crops in fields is determined by reference to the cash flows that will be obtained from sales of harvested crops, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

#### (V) Hatchery eggs

The fair value of hatchery eggs is determined by reference to market prices at the point of harvest.

### Agricultural Produce

#### (I) Dressed poultry, beef and pork

The fair value of dressed poultry, beef and pork is determined by reference to market prices at the point of harvest.

#### (II) Grain and fruits

The fair value of fodder grain and fruits is determined by reference to market prices at the point of harvest.

The Group's biological assets are classified into bearer and consumable biological assets depending upon the function of a particular group of biological assets in the Group's production process. Consumable biological assets are those that are to be harvested as agricultural produce, and include hatchery eggs and live broiler chickens intended for the production of meat, as well as pork and meat cows. Bearer biological assets include poultry held for hatchery eggs production, orchards, milk cows and breeding bulls.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### Financial instruments

Financial assets and financial liabilities are recognized on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity. Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, account receivables, borrowings, account payables and other financial liabilities. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Accounts receivable

Accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Accounts receivable, which are non-interest bearing, are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognized in the statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash with banks, deposits and marketable securities with an original maturity of less than three months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 3. Summary of significant accounting policies (continued)

### **Bank borrowings, corporate bonds issued and other long-term payables**

Interest-bearing bank borrowings, bonds issued and other long-term payables are initially measured at fair value net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognized over the term of the borrowings and recorded as finance costs.

### **Derivative financial instruments**

The Group enters into derivative financial instruments to purchase sunflower seeds. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not remeasured at fair value through statement of comprehensive income.

As of 31 December 2016 and 2015 there were no material derivative financial instruments that were recognized in these consolidated financial statements.

### **Trade and other accounts payable**

Accounts payable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held by the Group under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised directly to the statement of comprehensive income and are classified as finance costs.

Rental income or expenses under operating leases are recognized in the consolidated statement of comprehensive income on a straight line basis over the term of the lease.

### **Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

### **Reclassifications and revisions**

Certain comparative information presented in the consolidated financial statements for the year ended 31 December 2015 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2016. Such reclassifications and revisions were not significant to the Group financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

### Revenue recognition

In the normal course of business, the Group engages in sale and purchase transactions with the purpose of exchanging crops in various locations to fulfil the Group's production requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of similar nature and value. The Group management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying crops are of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying crops indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transaction involving goods of similar nature amounted to USD 14,755 thousand and USD 18,566 thousand for the years ended 31 December 2016 and 2015, respectively.

### Revaluation of property, plant and equipment

At each reporting date, the Group carries out a review of the carrying amount of the groups of property plant and equipment accounted for using a revaluation model to determine whether the carrying amount differs materially from fair value.

*Grain storage facilities, Utilities and infrastructure:* The Group carries out impairment review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period. Based on the results of this review, the Group concluded that grain storage facilities, utilities and infrastructure should be revalued during the year ended 31 December 2016.

The Group appointed an independent valuer for a revaluation of these groups during the year ended 31 December 2016 and performed revaluation as of 31 March 2016. Key assumptions used by the independent valuer in assessing the fair value of buildings and structures using the replacement cost method were as follows:

- present condition of particular assets was ranked from excellent to good;
- changes in prices of assets and construction materials from the date of their acquisition/construction to the date of valuation; and
- other external and internal factors that might have effect on fair value of the assets.

Results of the revaluation based on the replacement cost approach were compared with a revaluation performed using the income approach to check for impairment indicators of revalued assets, if any.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

### Revaluation of property, plant and equipment (continued)

*Vehicles and agricultural machinery, Auxiliary and other machinery:* The fair value of items of Vehicles and agricultural machinery, Auxiliary and other machinery is determined generally by reference to market-based evidence, which are the amounts for which the assets could be exchanged between knowledgeable, willing customers in an arm's length transaction as of the valuation date. For the items of unique nature, replacement cost method is used.

For the market approach the Group carries at each reporting date a review of the carrying amount of these assets to determine whether the carrying amount differs from fair value. The Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform fair value assessment in a given period. Based on the results of review the Group concluded that vehicles and agricultural machinery, auxiliary and other machinery should be revalued during the year ended 31 December 2016.

The Group appointed an independent valuer to value Vehicles and agricultural machinery, Auxiliary and other machinery during the year ended 31 December 2016; the revaluation was performed as of 31 March 2016.

Key assumptions used by the independent valuer in assessing the fair value of production machinery, vehicles and agricultural machinery using the market approach method were as follows:

- present condition of particular assets was ranked from excellent to good; and
- external prices provided by suppliers of machinery and vehicles for similar items were considered.

*Income approach test and test for impairment:* Results of the revaluation based on the replacement cost approach were compared with a revaluation performed using the income approach to check for impairment indicators of revalued assets, if any.

The following unobservable inputs were used to measure Utilities and infrastructure, Grain storage facilities, Vehicles and agricultural machinery and Auxiliary and other machinery:

Description	Fair value as at 31 December 2016	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Utilities and infrastructure	78,236	Depreciated replacement cost method	Index of physical depreciation	0-81%	The higher the index of physical depreciation, the lower the fair value
			Cumulative index of inflation of construction works	1.72-2.34	The higher the index, the higher the fair value
Grain storage facilities	80,850	Depreciated replacement cost method	Index of physical depreciation	6-56%	The higher the index of physical depreciation, the lower the fair value
			Cumulative index of inflation of construction works	1.72-1.99	The higher the index, the higher the fair value
Vehicles and agricultural machinery	185,198	Market comparable approach	Index of physical depreciation	0-90%	The higher the index of physical depreciation, the lower the fair value
Auxiliary and other machinery	39,239	Market comparable approach	Index of physical depreciation	5-100%	The higher the index of physical depreciation, the lower the fair value

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Fair value less costs to sell of biological assets and agricultural produce

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 meat output for broilers and livestock for meat production;
- Average productive life of breeders and cattle held for regeneration and milk production;
- Expected crops output;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and,
- Discount rate.

During the year ended 31 December 2016 the fair value of biological assets and agricultural produce was estimated using discount factors of 14.9% and 21.4% (31 December 2015: 23.0% and 34.6%) for non-current and current assets, respectively.

Although some of these assumptions are obtained from published market data, the majority of these assumptions are estimated based on the Group's historical and projected results (Note 14).

### Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management estimate based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

### Deferred tax assets

Deferred tax assets, including those arising from unused tax losses are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Based on management assessment the Group decided to recognise deferred tax assets on unused tax losses, which will be utilized in future against existing deferred tax liabilities and available future tax profits.

### VAT recoverable

The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by set off against VAT liabilities in future periods. Management classified the VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within twelve months from the reporting date. In addition, management assessed whether an allowance for irrecoverable VAT needed 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 output over VAT input in the normal course of the business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 5. Segment information

The majority of the Group's operations and non-current assets are located within Ukraine.

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 are as follows:

### Poultry and related operations segment:

- sales of chicken meat
- sales of vegetable oil and related products
- other poultry related sales

### Grain growing operations segment:

- sales of grain

### Other agricultural operations segment:

- sales of meat processing products and other meat
- other agricultural operations (milk, feed grains and other)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Sales between segments are carried out at market prices. The segment result represents operating profit under IFRS before unallocated corporate expenses and loss on impairment of property, plant and equipment. Unallocated corporate expenses include management remuneration, representative expenses, and expenses incurred in respect of the maintenance of office premises. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The Group does not disclose geographical revenue information as it is not available and the cost to develop it would be excessive.

As of 31 December and for the year then ended the Group's segmental information from continuing operations was as follows:

Year ended 31 December 2016	Poultry and related operations	Grain growing operations	Other agricultural operations	Total reportable segments	Eliminations	Consolidated
External sales	970,387	84,753	80,322	1,135,462	-	1,135,462
Sales between business segments	29,759	195,872	249	225,880	(225,880)	-
<b>Total revenue</b>	<b>1,000,146</b>	<b>280,625</b>	<b>80,571</b>	<b>1,361,342</b>	<b>(225,880)</b>	<b>1,135,462</b>
Segment results	207,969	116,670	10,259	334,898	-	334,898
Unallocated corporate expenses						(18,634)
Loss on impairment of property, plant and equipment						(1,443)
Other expenses, net <sup>1</sup>						(259,115)
<b>Profit before tax from continuing operations</b>						<b>55,706</b>
<b>Other information:</b>						
Additions to property, plant and equipment <sup>2</sup>	74,823	18,955	3,685	97,463	-	97,463
Depreciation and amortization expense <sup>3</sup>	60,767	33,336	2,907	97,010	-	97,010
Net change in fair value of biological assets and agricultural produce	5,039	32,198	1,657	38,894	-	38,894

<sup>1</sup> Include finance income, finance costs, foreign exchange loss (net) and other expenses (net).

<sup>2</sup> Additions to property, plant and equipment in 2016 (Note 12) do not include unallocated additions in the amount of USD 2,520 thousand.

<sup>3</sup> Depreciation and amortization for the year ended 31 December 2016 does not include unallocated depreciation and amortization in the amount of USD 1,557 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 5. Segment information (continued)

Year ended 31 December 2015	Poultry and related operations	Grain growing operations	Other agricultural operations	Total reportable segments	Eliminations	Consolidated
External sales	878,393	117,240	66,282	1,061,915	-	1,061,915
Sales between business segments	24,795	145,535	90	170,420	(170,420)	-
<b>Total revenue</b>	<b>903,188</b>	<b>262,775</b>	<b>66,372</b>	<b>1,232,335</b>	<b>(170,420)</b>	<b>1,061,915</b>
Segment results	280,913	70,606	9,200	360,719	-	360,719
Unallocated corporate expenses						(13,968)
Other expenses, net <sup>1</sup>						(500,632)
Loss before tax from continuing operations						(153,881)
<b>Other information:</b>						
Additions to property, plant and equipment <sup>2</sup>	97,166	54,164	1,330	152,660		152,660
Depreciation and amortization expense <sup>3</sup>	62,568	23,753	1,778	88,099	-	88,099
Net change in fair value of biological assets and agricultural produce	19,483	(2,582)	2,950	19,851	-	19,851

<sup>1)</sup> Include loss from disposal of subsidiaries, finance income, finance costs, foreign exchange loss (net) and other expenses (net).

<sup>2)</sup> Additions to property, plant and equipment in 2015 (Note 12) do not include unallocated additions in the amount of USD 3,396 thousand.

<sup>3)</sup> Depreciation and amortization for the year ended 31 December 2015 does not include unallocated depreciation and amortization in the amount of USD 802 thousand.

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2016 and 2015:

	2016	2015
Vegetable oil and related products	295,596	241,481
Chicken meat and related products	243,725	189,175
Grain	80,990	92,094
Other agricultural segment products	14,409	1,146
	<b>634,720</b>	<b>523,896</b>

Export sales of vegetable oil and related products and export sales of grains are primarily made to global trading companies at CPT port terms. The major markets for the Group's export sales of chicken meat are Middle East, CIS countries and EU, as well as, to a lesser extent, Northern Africa and Asia.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 6. Revenue

Revenue for the years ended 31 December 2016 and 2015 was as follows:

	2016	2015
<b>Poultry and related operations segment</b>		
Chicken meat	617,930	599,839
Vegetable oil and related products	295,596	241,794
Other poultry related sales	56,861	36,760
	<b>970,387</b>	<b>878,393</b>
<b>Grain growing operations segment</b>		
Grain	84,753	117,240
	<b>84,753</b>	<b>117,240</b>
<b>Other agricultural operations segment</b>		
Other meat	54,705	43,852
Other agricultural sales	25,617	22,430
	<b>80,322</b>	<b>66,282</b>
	<b>1,135,462</b>	<b>1,061,915</b>

## 7. Cost of sales

Cost of sales for the years ended 31 December 2016 and 2015 was as follows:

	2016	2015
Poultry and related operations	680,574	584,174
Grain growing operations	62,526	97,840
Other agricultural operations	69,150	57,422
	<b>812,250</b>	<b>739,436</b>

For the years ended 31 December 2016 and 2015 cost of sales comprised the following:

	2016	2015
Costs of raw materials and other inventory used	548,061	502,174
Payroll and related expenses	89,870	85,787
Depreciation and amortization expense	87,992	79,946
Other costs	86,327	71,529
	<b>812,250</b>	<b>739,436</b>

By-products arising from the agricultural production process are measured at net realizable value, and this value is deducted from the cost pool.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 8. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
Payroll and related expenses	26,882	25,022
Services	17,188	13,627
Depreciation expense	10,575	8,955
Fuel and other materials used	8,032	8,520
Representative costs and business trips	6,886	7,412
Advertising expense	4,633	5,031
Bank services and conversion fees	469	350
Insurance expense	398	630
Other	3,710	2,782
	78,773	72,329

Remuneration to the auditors, included in Services above, approximate to USD 554 thousand and USD 702 thousand for the years ended 31 December 2016 and 2015, respectively. Such remuneration includes both audit and non-audit services, with the audit fees component approximating USD 390 thousand and USD 430 thousand for the years ended 31 December 2016 and 2015, respectively.

## 9. VAT refunds and other government grants income

The Ukrainian legislation provides for a number of different grants and tax benefits for companies involved in agricultural operations. The below mentioned grants and similar privileges are established by Verkhovna Rada (the Parliament) of Ukraine, as well as by the Ministry of Agrarian Policy of Ukraine, the Ministry of Finance of Ukraine, the State Committee of Water Industry, the customs authorities and local district administrations.

VAT refunds and other government grants recognized by the Group as income during the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
VAT refunds	34,056	75,410
Other government grants	-	25
	34,056	75,435

### VAT refunds for agricultural industry

According to the Tax Code of Ukraine issued in December 2010 and effective since 1 January 2011 ("Tax Code"), companies that generated not less than 75% of gross revenues for the previous tax year from sales of own agricultural products are entitled to retain VAT on sales of agricultural products, net of VAT paid on purchases, for use in agricultural production.

During the year ended 31 December 2015 and before, VAT collected from agricultural producers was fully retained by these companies. On 24 December 2015, the Law "On amending the Tax Code of Ukraine and certain legislative acts of Ukraine in terms of ensuring the balanced budget receipts in 2016" was adopted effective 1 January 2016. In accordance with the new legislation, agricultural producers will be entitled to retain only a portion of VAT on agricultural operations. Producers of grain and industrial crops, cattle and dairy producers, poultry and other agriculture producers shall retain VAT in a portion of 15%, 80% and 50%, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 9. VAT refunds and other government grants income (continued)

On 30 December 2016 the President of Ukraine signed the Law No. 1791 On Amendments to the Tax Code of Ukraine Regarding the Balancing of Budget Revenues in 2017 (hereinafter the "Law No. 1791"). The Law No. 1791 introduces changes to VAT administration for agricultural companies which previously enjoyed a special VAT regime.

However, in order to continue state support for agricultural companies, the Law No. 1791 introduces budget subsidies for agricultural companies by amending the Law of Ukraine On State Support of Agriculture of Ukraine. From 2017 onwards, budget subsidies will be provided for 5 consecutive calendar years, until 1 January 2022. The agricultural producers eligible for the subsidies will include those involved in poultry production and animal farming, as well as fruit and vegetable farmers.

For each agricultural producer, the amount of the subsidy is not to exceed the amount of VAT tax paid by the producers, and will be distributed on a monthly basis.

## 10. Finance costs

Finance costs for the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
Interest on corporate bonds	68,184	74,321
Interest on bank borrowings	35,186	24,812
Interest on obligations under finance leases	1,835	2,288
Bank commissions and other charges	6,063	6,645
<b>Total finance costs</b>	<b>111,268</b>	<b>108,066</b>
Less:		
Finance costs included in the cost of qualifying assets	(4,425)	(2,495)
	<b>106,843</b>	<b>105,571</b>

For qualifying assets, the weighted average capitalization rate on funds borrowed during the year ended 31 December 2016 was 9.69% (2015: 9.29%).

Interest on corporate bonds for the years ended 31 December 2016 and 2015 includes amortization of premium and debt issue costs on bonds issued in the amounts of USD 5,978 thousand and USD 5,020 thousand, respectively.

## 11. Income tax

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2016 and 2015.

During the year ended 31 December 2016, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax. The Tax Code of Ukraine introduced an 18% income tax rate effective from 1 January 2014. The deferred income tax assets and liabilities as of 31 December 2016 and 2015 are measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 11. Income tax (continued)

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. On 1 January 2015, the Law "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform" (the "Law") became effective. Under the Law, the fixed agricultural tax regime ("FAT") was transformed, without substantial changes to tax rules, by means of introducing a separate (4th) group of single taxpayers – agricultural manufacturers. The tax rates calculated as a percentage of the target-ratio based monetary valuation per hectare of agricultural land resulting in substantially lower tax charges compared to CIT. Agricultural manufacturers are eligible to apply for a single tax if they meet both the following two requirements:

1. The share of the entity's income from agricultural production (i.e., sale of the entity's cultivated and processed products) to the total share of its income equals or exceeds 75 per cent; and
2. These agriproducts were cultivated on land that such agricultural manufacturers own or lease, and the ownership title and leases have been duly registered.

The components of income tax expense/(benefit) were as follows for the years ended 31 December 2016 and 2015

	2016	2015
Current income tax expense/(benefit)	621	(1,460)
Deferred tax benefit	(13,701)	(39,682)
<b>Income tax benefit</b>	<b>(13,080)</b>	<b>(41,142)</b>

The reconciliation between profit before tax from continuing operations multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2016 and 2015 was as follows:

	2016	2015
Profit/(Loss) before income tax	55,706	(153,881)
Income tax expense calculated at rates effective during the year ended in respective jurisdictions	7,763	(28,483)
<b>Tax effect of:</b>		
Income generated by FAT payers (exempt from income tax)	(40,678)	(41,413)
Non-deductible expenses	12,463	14,493
Expenses not deducted for tax purposes	7,004	11,136
Translation loss	368	3,125
<b>Income tax benefit</b>	<b>(13,080)</b>	<b>(41,142)</b>

During the years ended 31 December 2016 and 2015 the Group did not recognize deferred tax assets arising from temporary differences of USD 38,911 thousand, USD 61,867 thousand, respectively, as the Group did not intend to deduct the relevant expenses for tax purposes in subsequent periods, as there are uncertainties on whether sufficient taxable profits will be generated by particular companies of the Group in the future. There is no expiration date of accounting tax losses according to Tax Code of Ukraine. Deferred tax liabilities have not been recognized in respect of unremitted earnings of Ukrainian subsidiaries as the earnings can be remitted free from taxation currently and in future years, based on current legislation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 11. Income tax (continued)

As of 31 December 2016 and 2015 deferred tax assets and liabilities comprised the following:

	2016	2015
<b>Deferred tax assets arising from:</b>		
Property, plant and equipment	6	170
Other current liabilities	761	926
Inventories	326	1,066
Tax losses	81,923	79,758
<b>Total deferred tax assets</b>	<b>83,016</b>	<b>81,920</b>
<b>Deferred tax liabilities arising from:</b>		
Property, plant and equipment	(92,700)	(89,396)
Inventories	(19)	(4)
Prepayments to suppliers	-	(7)
<b>Total deferred tax liabilities</b>	<b>(92,719)</b>	<b>(89,407)</b>
<b>Net deferred tax liabilities</b>	<b>(9,703)</b>	<b>(7,487)</b>

Certain Group's companies incurred losses during the 2016 and preceding years. The Group has recognised deferred tax assets on accounting tax losses to the extent of possible future taxable income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2016 and 2015:

	2016	2015
Deferred tax assets	1,561	5,740
Deferred tax liabilities	(11,264)	(13,227)
	<b>(9,703)</b>	<b>(7,487)</b>

The movements in net deferred tax liabilities for the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
Net deferred tax liabilities as of beginning of the year	(7,487)	(20,424)
Deferred tax benefit	13,701	39,682
Deferred tax liabilities arising on acquisition of subsidiaries	-	42
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income	(16,143)	(30,842)
Translation difference	226	4,055
<b>Net deferred tax liabilities as of end of the year</b>	<b>(9,703)</b>	<b>(7,487)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 12. Property, plant and equipment

The following table represents movements in property, plant and equipment for the year ended 31 December 2016:

Cost or fair value:	Land	Buildings and structures	Grain storage facilities	Production machinery	Auxiliary and other machinery	Utilities and infrastructure	Vehicles and agricultural machinery	Other fixed assets <sup>(1)</sup>	Construction in progress	Total
At 1 January 2016	775	595,322	65,181	280,493	36,947	57,575	214,391	16,348	79,803	1,346,835
Additions	567	17,433	340	18,304	10,389	5,356	18,744	2,185	26,665	99,983
Disposals	(39)	(1,157)	(93)	(676)	(379)	(76)	(2,900)	(139)	(247)	(5,706)
Transfers	-	19,500	-	11,228	144	2,684	906	88	(34,550)	-
Reclassified as held for sale (Note 20)	-	(37,450)	-	(8,223)	-	(842)	(19,089)	(10,531)	(243)	(76,378)
Revaluations	-	-	28,433	-	2,691	24,263	31,500	-	-	86,887
Impairment loss <sup>(2)</sup>	-	(24,315)	-	(2,437)	(688)	(229)	(6,052)	(75)	(2,798)	(36,594)
Translation difference	(86)	(51,181)	(8,594)	(33,750)	(7,575)	(8,701)	(18,759)	(328)	(9,229)	(138,203)
At 31 December 2016	1,217	518,152	85,267	264,939	41,529	80,030	218,741	7,548	59,401	1,276,824
Accumulated depreciation and impairment:										
At 1 January 2016	-	-	5,083	20,224	10,999	14,503	31,805	5,971	-	88,585
Depreciation charge for the year <sup>(3)</sup>	-	15,967	5,090	27,010	3,106	2,665	45,218	1,341	-	100,397
Elimination upon disposal	-	(213)	-	(626)	(145)	(63)	(2,180)	(132)	-	(3,359)
Eliminated on revaluation	-	-	(5,034)	-	(9,059)	(12,993)	(27,630)	-	-	(54,716)
Reclassified as held for sale (Note 20)	-	(8,808)	-	(3,860)	-	(602)	(12,692)	(922)	-	(26,884)
Translation difference	-	2,235	(722)	(2,974)	(2,611)	(1,716)	(978)	(767)	-	(7,533)
At 31 December 2016	-	9,181	4,417	39,774	2,290	1,794	33,543	5,491	-	96,490
Net book value										
At 1 January 2016	775	595,322	60,098	260,269	25,948	43,072	182,586	10,377	79,803	1,258,250
At 31 December 2016	1,217	508,971	80,850	225,165	39,239	78,236	185,198	2,057	59,401	1,180,334

1) Other fixed assets include bearer plants, office furniture and equipment;

2) Impairment loss contains USD 35,151 thousand of loss on impairment of property, plant and equipment included in a disposal group held for sale;

3) Depreciation charge for the year included in results from discontinued operations USD 7,298 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 12. Property, plant and equipment (continued)

The following table represents movements in property, plant and equipment for the year ended 31 December 2015:

Cost or fair value:	Land	Buildings and structures	Grain storage facilities	Production machinery	Auxiliary and other machinery	Utilities and infrastructure	Vehicles and agricultural machinery	Other fixed assets <sup>(1)</sup>	Construction in progress	Total
At 1 January 2015	14,099	723,297	99,774	300,537	54,903	80,638	208,456	23,317	40,661	1,545,682
Additions	405	18,157	2,426	28,059	1,087	3,624	37,131	1,236	63,931	156,056
Disposals	-	(294)	(108)	(567)	(305)	(224)	(2,075)	(163)	-	(3,736)
Transfers	23	3,553	-	1,460	936	882	110	(36)	(6,928)	-
Disposals of Voronezh Agroholding (Note 2)	(12,470)	(7,732)	(9,172)	-	(2,620)	(193)	(17,095)	(4)	(164)	(49,450)
Acquisitions of subsidiaries (Note 2)	-	4,427	4,574	-	1,300	636	16,603	139	184	27,863
Revaluations	-	101,054	-	54,787	-	-	39,228	-	-	195,069
Translation difference	(1,282)	(247,140)	(32,313)	(103,783)	(18,354)	(27,788)	(67,967)	(8,141)	(17,881)	(524,649)
At 31 December 2015	775	595,322	65,181	280,493	36,947	57,575	214,391	16,348	79,803	1,346,835
Accumulated depreciation and impairment:										
At 1 January 2015	-	-	3,584	-	15,671	17,970	-	8,598	-	45,823
Depreciation charge for the year <sup>(2)</sup>	-	20,301	3,440	27,693	1,632	3,239	44,040	511	-	100,856
Elimination upon disposal	-	(290)	(108)	(485)	(302)	(223)	(923)	(158)	-	(2,489)
Eliminated on revaluation	-	(17,675)	-	(4,921)	-	-	(6,477)	-	-	(29,073)
Disposals of Voronezh Agroholding (Note 2)	-	(166)	(398)	-	(644)	(23)	(1,465)	-	-	(2,696)
Translation difference	-	(2,170)	(1,435)	(2,063)	(5,358)	(6,460)	(3,370)	(2,980)	-	(23,836)
At 31 December 2015	-	-	5,083	20,224	10,999	14,503	31,805	5,971	-	88,585
Net book value										
At 1 January 2015	14,099	723,297	96,190	300,537	39,232	62,668	208,456	14,719	40,661	1,499,859
At 31 December 2015	775	595,322	60,098	260,269	25,948	43,072	182,586	10,377	79,803	1,258,250

1) Other fixed assets include bearer plants, office furniture and equipment

2) Depreciation charge for the year included in results from discontinued operations USD 5,764 thousand

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 12. Property, plant and equipment (continued)

As of 31 December 2016, included within construction in progress were prepayments for property, plant and equipment in the amount of USD 8,661 thousand (2015: USD 20,501 thousand).

As of 31 December 2016, included within property, plant and equipment were fully depreciated assets with the original cost of USD 9,490 thousand (2015: USD 9,431 thousand).

As of 31 December 2016 and 2015 the net carrying amount of property, plant and equipment, represented by vehicles and agricultural machinery, held under finance lease agreements was USD 39,460 thousand and USD 64,018 thousand, respectively.

### Impairment assessment

The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, there were no indicators of impairment as of 31 December 2016 and 2015, except for impairment of certain assets in the amount of USD 1,443 thousand.

### Revaluation of vehicles and agricultural machinery

During the year ended 31 December 2016 and 2015, the Group engaged independent appraisers to revalue its vehicles and agricultural machinery. The effective dates of revaluation were 31 March 2016 and 31 March 2015 respectively. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery.

### Revaluation of production machinery

During the year ended 31 December 2015, the Group engaged independent appraisers to revalue its production machinery. The effective date of revaluation was 31 March 2015. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature replacement cost method. During the year ended and as of 31 December 2016, the Group evaluated if the fair value of production machinery is materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of producers prices, index of physical depreciation and functional currency depreciation, the Management assessed it not to be materially different from the reported book values.

### Revaluation of buildings and structures

During the year ended 31 December 2015, the Group engaged independent appraisers to revalue its buildings and structures. The effective date of revaluation was 31 December 2015. The valuation, which conformed to the International Valuation Standards, was determined using replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the buildings and structures. During the year ended and as of 31 December 2016, the Group evaluated if the fair value of buildings and structures is materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and index of physical depreciation, the Management assessed it not to be materially different from the reported book values.

### Revaluation of grain storage facilities

During the year ended 31 December 2016, the Group engaged independent appraisers to revalue its grain storage facilities as of 31 March 2016. The valuation, which conformed to the International Valuation Standards, was determined using replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities. During the year ended 31 December 2015, the Group assessed the fair value of grain storage not to be materially different from the reported book values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 12. Property, plant and equipment (continued)

### Revaluation of Auxiliary and other machinery

During the year ended 31 December 2016 the Group engaged an independent appraiser to determine the fair value of its Auxiliary and other machinery as of 31 March 2016. The valuation, which conformed to the International Valuation Standards, was determined using the market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature replacement cost method.

### Revaluation of Utilities and infrastructure

During the year ended 31 December 2016, the Group engaged independent appraisers to revalue its utilities and infrastructure as of 31 March 2016. The valuation, which conformed to the International Valuation Standards, was determined using replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities.

Had the Group's property plant and equipment been measured on a historical cost basis, their carrying amount would have been as follows:

	Fair value hierarchy	Fair value		Net book value if carried at cost	
		2016	2015	2016	2015
Buildings and structures	Level 3	508,971	595,322	142,990	188,420
Grain storage facilities	Level 3	80,850	60,098	38,504	44,319
Production machinery	Level 2	225,165	260,269	109,178	111,018
Vehicles and agricultural machinery	Level 2	185,198	182,586	39,791	51,695
Utilities and infrastructure	Level 3	78,236	43,072	42,427	43,072
Auxiliary and other machinery	Level 2,3	39,239	25,948	26,477	25,948

There are no restrictions on the distribution of the revaluation surplus to the shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 13. Land lease rights

Land lease rights represent rights for operating leases of agricultural land plots. The following table represents the movements in land lease rights for the years ended 31 December 2016 and 2015:

	2016	2015
<b>Cost:</b>		
As of 1 January	53,868	34,301
Additions	7,755	6,644
Disposal of subsidiaries (Note 2)	-	(2,212)
Acquired through business combinations (Note 2)	-	30,662
Translation difference	(6,750)	(15,527)
As of 31 December	54,873	53,868
<b>Accumulated amortization:</b>		
As of 1 January	7,616	7,065
Amortization charge for the year	4,582	3,519
Disposal of subsidiaries (Note 2)	-	(424)
Translation difference	(1,170)	(2,544)
As of 31 December	11,028	7,616
<b>Net book value:</b>		
As of 1 January	46,252	27,236
As of 31 December	43,845	46,252



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 14. Biological assets

The balances of non-current biological assets were as follows as of 31 December 2016 and 2015:

	Thousand units	Carrying amount	Thousand units	Carrying amount
	2016		2015	
Milk cows, units	18.1	12,532	18.4	11,343
Boars and sows, units	1.7	232	4.2	2,494
Other non-current bearer biological assets		323		50
<b>Total bearer non-current biological assets</b>		<b>13,087</b>		<b>13,887</b>
Non-current cattle and pigs, units	3.5	1,471	3.6	1,317
<b>Total consumable non-current biological assets</b>		<b>1,471</b>		<b>1,317</b>
<b>Total non-current biological assets</b>		<b>14,558</b>		<b>15,204</b>

The balances of current biological assets were as follows as of 31 December 2016 and 2015:

	Thousand units	Carrying amount	Thousand units	Carrying amount
	2016		2015	
Breeders held for hatchery eggs production, units	3,741	46,483	3,381	52,523
<b>Total bearer current biological assets</b>		<b>46,483</b>		<b>52,523</b>
Broiler chickens, units	38,685	40,558	42,426	49,234
Hatchery eggs, units	30,701	6,202	31,102	8,157
Crops in fields, hectare	93	20,977	109	27,224
Cattle and pigs, units	16.7	1,845	40	2,412
Other current consumable biological assets		149		250
<b>Total consumable current biological assets</b>		<b>69,731</b>		<b>87,277</b>
<b>Total current biological assets</b>		<b>116,214</b>		<b>139,800</b>

Other current consumable biological assets include geese and other livestock.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 14. Biological assets (continued)

The following table represents movements in major biological assets for the years ended 31 December 2016 and 2015:

	Milk cows, boars, sows	Breeders held for hatchery eggs production	Broiler chickens	Crops in fields
As of 31 December 2014	15,133	38,701	54,720	28,570
Costs incurred	4,906	87,002	387,420	180,460
Changes on business combination (Note 2)	-	-	-	213
Gains arising from change in fair value of biological assets less costs to sell	10,304	52,604	217,095	57,053
Transfer to consumable biological assets	-	(104,134)	104,134	-
Transfer to bearing non-current biological assets	5,192	-	-	-
Decrease due to sale	(319)	-	-	-
Decrease due to harvest	(15,800)	(5,681)	(694,045)	(228,744)
Translation difference	(5,579)	(15,969)	(20,090)	(10,328)
As of 31 December 2015	13,837	52,523	49,234	27,224
Costs incurred	5,611	64,707	459,893	219,285
Gains arising from change in fair value of biological assets less costs to sell	7,454	29,415	162,626	107,259
Transfer to consumable biological assets	-	(85,857)	85,857	-
Transfer to bearing non-current biological assets	5,506	-	-	-
Decrease due to sale	(498)	-	-	-
Decrease due to harvest	(17,485)	(8,134)	(712,668)	(329,794)
Reclassified as held for sale	-	-	1,204	-
Translation difference	(1,661)	(6,171)	(5,588)	(2,997)
As of 31 December 2016	12,764	46,483	40,558	20,977

Information on movements in hatchery eggs and cattle and pigs groups have been considered immaterial for disclosure.

Biological assets of the Group are measured at fair value within Level 3 of the fair value hierarchy, except for cattle and pigs that can be measured based on market prices of livestock of a similar age, breed and genetic merit, and which are therefore measured at fair value within Level 2 of the fair value hierarchy. There were no transfers between any levels during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 14. Biological assets (continued)

The following unobservable inputs were used to measure biological assets:

Description	Fair value as at 31 December 2016	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	20,977	Discounted cash flows	Crops yield - tonnes per hectare	3.3 – 6.2 (5.2)	The higher the crops yield, the higher the fair value
			Crops price – per tonne	USD 101 - 341 (185)	The higher the market price, the higher the fair value
			Discount rate	21.4%	The higher the discount rate, the lower the fair value
Breeders held for hatchery eggs production	46,483	Discounted cash flows	Number of hatchery eggs produced by one breeder	165	The higher the number, the higher the fair value
			Hatchery egg price – per egg	USD 0.20	The higher the market price, the higher the fair value
			Discount rate	14.9%	The higher the discount rate, the lower the fair value
Broiler chickens	40,558	Cash flows	Average weight of one broiler - kg	2.4	The higher the weight, the higher the fair value
			Poultry meat price – per kg	UAH 6.7 – 35.6 (23.59)	The higher the market price, the higher the fair value
Milk cows	12,532	Discounted cash flows	Daily milk yield - litre per cow	13.12 - 20.58 (18.13)	The higher the milk yield, the higher the fair value
			Weight of the cow - kg per cow	514 - 545 (531)	The higher the weight, the higher the fair value
			Milk price – per litre	UAH 5.36 – 6.17 (5.83)	The higher the market price, the higher the fair value
			Meat price – per kg	UAH 13.55 - 18.88 (17.10)	The higher the market price, the higher the fair value
			Discount rate	14.9%	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the current and non-current biological assets would increase /decrease by USD 46,227 thousand and USD 42,296 thousand, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 15. Inventories

The balances of inventories were as follows as of 31 December 2016 and 2015:

	2016	2015
Components for mixed fodder production	108,571	185,455
Work in progress	26,073	31,343
Other raw materials	24,186	24,373
Spare parts	10,201	10,395
Sunflower oil	9,958	16,186
Packaging materials	3,478	4,705
Mixed fodder	3,191	4,756
Other inventories	1,674	1,815
	<b>187,332</b>	<b>279,028</b>

As of 31 December 2016 and 2015 work in progress in the amount of USD 26,073 thousand and USD 31,343 thousand comprised expenses incurred in cultivating fields to be planted in the years 2017 and 2016 respectively.

As of 31 December 2016, components for mixed fodder production with carrying amount of USD 106,101 thousand (2015: USD 112,500 thousand) were pledged as collateral to secure bank borrowings (Note 23).

## 16. Agricultural produce

The balances of agricultural produce were as follows as of 31 December 2016 and 2015:

	2016		2015	
	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
Chicken meat	33.8	36,441	24.7	26,806
Other meat	N/A <sup>1</sup>	2,354	N/A <sup>1</sup>	2,139
Grain	847	116,316	757	79,997
Fruits, vegetables and other crops	N/A <sup>1</sup>	12,278	N/A <sup>1</sup>	11,632
		<b>167,389</b>		<b>120,574</b>

<sup>1)</sup> Due to the diverse composition of noted produce unit of measurement is not applicable.

The fair value of Agricultural produce was estimated based on market price as of date of harvest and is within Level 2 of the fair value hierarchy.

As of 31 December 2016, grains with carrying amount of USD 4,000 thousand were pledged as collateral to secure advances received from customers (Note 27).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 17. Taxes recoverable and prepaid

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

	2016	2015
VAT recoverable	26,034	67,538
Miscellaneous taxes prepaid	5,201	4,493
	31,235	72,031

## 18. Trade accounts receivable, net

The balances of trade accounts receivable were as follows as of 31 December 2016 and 2015:

	2016	2015
Agricultural operations	50,737	36,620
Due from related parties (Note 28)	113	173
Sunflower oil sales	284	2,892
Less: allowance for irrecoverable amounts	(266)	(885)
	50,868	38,800

The allowance for irrecoverable amounts is estimated at the level of 25% of trade accounts receivable on sales of poultry meat which are over 30 days past due (for trade accounts receivable on other sales – over 60 days). Trade accounts receivable on sales of poultry meat which are aged over 270 days and trade accounts receivable on other sales which are aged over 360 days are provided in full.

The Group also performs specific analysis of trade accounts receivable due from individual customers to determine whether any further adjustments are required to the allowance for irrecoverable amounts assessed on the percentages disclosed above. Based on the results of such a review as of 31 December 2016 the Group determined that trade accounts receivable on sales of poultry meat of USD 1,909 thousand (2015: USD 5 thousand) were overdue but do not require allowance for irrecoverable amounts.

For the years ended 31 December 2016 and 2015 the Group has not recorded any impairment of receivables relating to amounts owed by related parties as management is certain about their recoverability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 18. Trade accounts receivable, net (continued)

The ageing of trade accounts receivable that were impaired as of 31 December 2016 and 2015 was as follows:

	Trade accounts receivable		Allowance for irrecoverable amounts	
	2016	2015	2016	2015
Trade accounts receivable on sales of poultry meat:				
Over 30 but less than 270 days	-	7	-	(2)
Over 270 days	-	558	-	(558)
	-	565	-	(560)
Trade accounts receivable on other sales:				
Over 60 but less than 360 days	334	183	(146)	(46)
Over 360 days	120	279	(120)	(279)
	454	462	(266)	(325)
	454	1,027	(266)	(885)

## 19. Cash and cash equivalents

The balances of cash and cash equivalents were as follows as of 31 December 2016 and 2015:

	2016	2015
Cash on hand and with banks	150,951	57,633
EUR short-term deposits with banks	3,588	43
UAH short-term deposits with banks	31	1,667
	154,570	59,343

During the year ended 31 December 2016, UAH denominated short-term deposits earned an effective interest rate of 7.3% (2015: 12.5%). All cash and cash equivalents are held within reputable foreign and Ukrainian banks.

Cash and cash equivalents included in disposal group classified as held for sale as of 31 December 2016 comprised USD 2,098 thousand.

As of 31 December 2016, EUR short-term deposits with banks in the amount of USD 3,588 thousand (2015: USD 43 thousand) were restricted as collateral to secure bank borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 20. Assets classified as held for sale

As described in Note 2, by year-end the management of the Group had committed to a plan to dispose of its Crimean companies and anticipated that the disposal was completed on 17 February 2017 (Note 35).

Immediately before the classification of Crimean companies as a disposal group held for sale, the recoverable amount was estimated for certain items of property, plant and equipment and an impairment loss was recognised in the amount of USD 35,151 thousand. The impairment loss in the amount of USD 28,286 thousands is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve. The remaining part of the impairment loss in the amount of USD 6,865 thousands is recognised in profit or loss for the period.

The ultimate disposal value was higher than the aggregate carrying amount of the assets comprising the discontinued operations (Note 35). As such, as at 31 December 2016, no further impairment loss on reclassification of disposal group as held for sale was recognized.

The major classes of assets and liabilities of the Crimean companies at the end of the reporting period are as follows:

	As at 31 December 2016
Property, plant and equipment, net	49,494
Other non-current assets	1,367
Biological assets	9,364
Agricultural produce	8,708
Inventories	11,113
Trade accounts receivable, net	1,806
Taxes recoverable and prepaid, net	2,745
Other current assets	1,701
Cash and cash equivalents	2,098
<b>Total assets classified as held for sale</b>	<b>88,396</b>
Trade accounts payable	(3,472)
Other current liabilities	(1,692)
<b>Total liabilities associated with assets classified as held for sale</b>	<b>(5,164)</b>
Intragroup accounts receivable and payable eliminated on consolidation, net	(5,691)
<b>Net assets of disposal group</b>	<b>77,541</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 21. Shareholders' equity

### Share capital

As of 31 December 2016 and 2015 the authorized, issued and fully paid share capital of MHP S.A. comprised the following number of shares:

	2016	2015
Number of shares authorized for issue	159,250,000	159,250,000
Number of shares issued and fully paid	110,770,000	110,770,000
Number of shares outstanding	106,781,794	106,250,399

The authorized share capital as of 31 December 2016 and 2015 was EUR 318,500 thousand represented by 159,250,000 shares with par value of EUR 2 each.

All shares have equal voting rights and rights to receive dividends, which are payable at the discretion of the Group

## 22. Non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2016	2015	2016	2015	2016	2015
Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv	11.5%	11.5%	(921)	(1,615)	3,638	3,977
Starynska Ptahofabryka (Note 2)	0.0%	5.0%	-	3,449	-	16,500
Other subsidiaries with immaterial non-controlling interests	n/a	n/a	6,717	5,839	13,060	7,650
	n/a	n/a	5,796	7,673	16,698	28,127

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 22. Non-controlling interests (continued)

	Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv		Starynska Ptahofabryka
	2016	2015	2015
Current assets	312,765	368,048	335,617
Non-current assets	104,578	113,468	30,503
Current liabilities	299,919	361,248	30,850
Non-current liabilities	85,648	85,488	-
Equity attributable to owners of the Group	28,138	30,803	318,770
Revenue	509,114	428,458	97,474
Expenses	(517,121)	(442,501)	(28,495)
(Loss)/profit for the year	(8,007)	(14,043)	68,979
(Loss)/profit attributable to owners of the Group	(7,086)	(12,428)	65,530
(Loss)/profit attributable to the non-controlling interests	(921)	(1,615)	3,449
(Loss)/profit for the year	(8,007)	(14,043)	68,979
Other comprehensive income/(loss) attributable to owners of the Company	4,480	5,765	(123,638)
Other comprehensive income/(loss) attributable to the non-controlling interests	582	749	(6,507)
Other comprehensive income/(loss) for the year	5,062	6,514	(130,145)
Total comprehensive income/(loss) attributable to owners of the Company	(2,606)	(6,663)	(58,108)
Total comprehensive income/(loss) attributable to the non-controlling interests	(339)	(866)	(3,058)
Total comprehensive income/(loss) for the year	(2,945)	(7,529)	(61,166)
Net cash inflow from operating activities	4,723	863	1,209
Net cash outflow from investing activities	(2,420)	(1,095)	(1,025)
Net cash outflow from financing activities	-	(11,337)	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 23. Bank borrowings

The following table summarizes bank borrowings and credit lines outstanding as of 31 December 2016 and 2015:

Bank	Currency	2016		2015	
		WAIR <sup>1</sup>	USD' 000	WAIR <sup>1</sup>	USD' 000
<b>Non-current</b>					
Foreign banks	USD	8,09%	241,823	7.87%	234,463
Foreign banks	EUR	1,33%	17,744	1.49%	43,668
			259,567		278,131
<b>Current</b>					
Ukrainian banks	USD	7,20%	68,752	7.03%	50,985
Foreign banks	USD	6,93%	65,500	6.43%	90,000
<b>Current portion of</b>					
long-term bank borrowings USD, EUR			102,555		108,072
			236,807		249,057
<b>Total bank borrowings</b>			<b>496,374</b>		<b>527,188</b>

<sup>1)</sup> WAIR represents the weighted average interest rate on outstanding borrowings.

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. Interest on the borrowings drawn with the Ukrainian banks is payable on a monthly or quarterly basis. Interest on borrowings drawn with foreign banks is payable semi-annually.

Term loans and credit line facilities were as follows as of 31 December 2016 and 2015:

	2016	2015
Credit lines	134,252	140,985
Term loans	362,122	386,203
	496,374	527,188

As of 31 December 2016 and 2015 all of the Group's bank term loans and credit lines bear floating interest rates.

Bank borrowings and credit lines outstanding as of 31 December 2016 and 2015 were repayable as follows:

	2016	2015
Within one year	236,944	249,057
In the second year	134,837	97,952
In the third to fifth year inclusive	113,758	164,979
After five years	10,835	15,200
	496,374	527,188

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 23. Bank borrowings (continued)

As of 31 December 2016, the Group had available undrawn facilities of USD 56,479 thousand (2015: USD 84,774 thousand). These undrawn facilities expire during the period from August 2017 until January 2020.

The Group, as well as, particular subsidiaries of the Group have to comply with certain covenants imposed by the banks providing the loans. The main covenants which are to be complied with by the Group are as follows: liability to equity ratio, net debt to EBITDA ratio, EBITDA to interest expenses ratio and current ratio. The Group subsidiaries are also required to obtain approval from lenders regarding the property to be used as collateral.

During the years ended 31 December 2016 and 2015 the Group has complied with all covenants imposed by banks providing the loans.

As of 31 December 2016, the Group had borrowings of USD 89,046 thousand (2015: USD 94,168 thousand) that were secured. These borrowings were secured by inventories with a carrying amount of USD 106,101 thousand (2015: USD 112,500 thousand) (Note 15) and deposits with banks in the amount of USD 4,165 thousand (2015: USD 4,168 thousand) that were restricted as collateral to secure bank borrowings.

As of 31 December 2016 and 2015 accrued interest on bank borrowings was USD 7,606 thousand and USD 8,203 thousand, respectively.

## 24. Bonds issued

Bonds issued and outstanding as of 31 December 2016 and 2015 were as follows:

	2016	2015
8.25% Senior Notes due in 2020	750,000	750,000
Unamortized debt issuance cost	(24,639)	(21,470)
	725,361	728,530
Less:		
Current portion of bonds issued	-	-
Total long-term portion of bonds issued	725,361	728,530

As of 31 December 2016 and 2015 accrued interest on bonds issued was USD 15,125 thousand and USD 15,125 thousand, respectively.

### 8.25% Senior Notes

On 2 April 2013, MHP S.A. issued USD 750,000 thousand of 8.25% Senior Notes due in 2020 at an issue price of 100% of the principal amount. USD 350,000 thousand out of issued USD 750,000 thousand 8.25% Senior Notes were used to facilitate the early redemption and exchange of its existing 10.25% Senior Notes due in 2015.

The early redemption of 10.25% Senior Notes due in 2015 from the issue of 8.25% Senior Notes due in 2020, which were placed with the same holders, resulted in a change in the net present value of the future cash flows of less than 10%, and thus was accounted for as modification and all the related expenses, including consent fees, were capitalized and will be amortized over the maturity period of the 8.25% Senior Notes due in 2020 in the amount of USD 28,293 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 24. Bonds issued (continued)

### 8.25% Senior Notes (continued)

Other related expenses, including consent fees, in the amount of USD 16,654 thousand were expensed as incurred.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Druzhba Narodiv, Druzhba Narodiv Nova, Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv, Oril-Leader, Katerynopilsky Elevator, Ptahofabryka Peremoga Nova, Zernoproduct, Myronivska Ptahofabryka, Starynska Ptahofabryka, Agrofort, NPF Urozhay, Vinnytska Ptahofabryka, Raftan Holding Limited, Scylla Capital Limited.

Interest on the Senior Notes was payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of certain financial ratios as defined by indebtedness agreement, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates.

If the Group fails to comply with certain covenants imposed, all outstanding Senior Notes will become due and payable without further action or notice. If a change of control occurs, the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

### Consent solicitation

On 7 March 2016, the Group has received consent from the Holders of the outstanding USD 750,000 thousand 8.25% Senior Notes for certain proposed amendments to the Indenture and the Notes. Amendments were obtained before the Consent Expiration Date (7 March 2016). The Amendments were implemented by way of execution of the Supplemental Indenture on March 8, 2016, and became effective from the Consent Settlement Date (9 March 2016).

In relation to the Notes, the Company has, on the Consent Settlement Date, paid to those Holders from whom valid Consents were delivered and not revoked on or prior to the Consent Expiration Date and which Consents are accepted by the Company the Consent Payment of USD 12.50 for each USD 1 thousand in principal amount of the Notes that were subject of the relevant Electronic Instructions and comprised USD 9,148 thousand.

During the years ended 31 December 2016 and 2015 the Group has complied with all covenants defined by indebtedness agreement.

The weighted average effective interest rate on the Senior Notes was 9.69% per annum for the year ended 31 December 2016, 9.29% per annum for the year ended 31 December 2015. The Notes are listed on London Stock Exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

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## 25. Finance lease obligations

Long-term finance lease obligations represent amounts due under agreements for the leasing of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2016, the weighted average interest rates on finance lease obligations were 6.46% and 8.04% for finance lease obligations denominated in EUR and USD, respectively (2015: 6.46% and 8.04%).

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2016 and 2015:

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
Payable within one year	8,854	15,207	8,044	14,027
Payable in the second year	3,060	7,507	2,648	7,277
Payable in the third to fifth year inclusive	3,411	2,341	2,933	2,318
	15,325	25,055	13,625	23,622
Less:				
Future finance charges	(1,700)	(1,433)	-	-
Present value of finance lease obligations	13,625	23,622	13,625	23,622
Less:				
Current portion			(8,044)	(14,027)
Finance lease obligations, long-term portion			5,581	9,595

## 26. Trade accounts payable

Trade accounts payable were as follows as of 31 December 2016 and 2015:

	2016	2015
Trade accounts payable to third parties	46,502	47,659
Payables due to related parties (Note 28)	6	10
	46,508	47,669

## 27. Other current liabilities

Other current liabilities were as follows as of 31 December 2016 and 2015:

	2016	2015
Accrued payroll and related taxes	24,638	22,163
Advances from and other payables due to third parties	26,382	3,852
Amounts payable for property, plant and equipment	5,960	7,605
Other payables	4,786	5,700
	61,766	39,320

As of 31 December 2016, the Group had advances received from customers of USD 10,000 thousand that were secured. This advance received was secured by agricultural produce with a carrying amount of USD 4,000 thousand (Note 16).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 28. Related party balances and transactions

For the purposes of these financial statements, parties are considered to be related if one party controls, is controlled by, or is under common control with the other party, or exercises 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms and conditions as transactions between unrelated parties.

### Transactions with related parties under common control

The Group enters into transactions with related parties that are the companies under common control of the Principal Shareholder of the Group (Note 1) in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements.

Terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. Management believes that amounts receivable due from related parties do not require an allowance for irrecoverable amounts and that the amounts payable to related parties will be settled at cost. The terms of the payables and receivables related to trading activities of the Group do not vary significantly from the terms of similar transactions with third parties.

The transactions with the related parties during the years ended 31 December 2016 and 2015 were as follows:

	2016	2015
Sales of goods to related parties	-	290
Sales of services to related parties	-	2
Purchases from related parties	69	115

The balances owed to and due from related parties were as follows as of 31 December 2016 and 2015:

	2016	2015
Trade accounts receivable (Note 18)	113	173
Payables due to related parties (Note 26)	6	10
Advances and finance aid receivable	3,310	1,228

### Compensation of key management personnel

Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to USD 8,421 thousand and USD 7,778 thousand for the years ended 31 December 2016 and 2015, respectively. Compensation of key management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's independent non-executive directors, which consists of contractual salary, amounted to USD 451 thousand and USD 496 thousand in 2016 and 2015, respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 28. Related party balances and transactions (continued)

### Compensation of key management personnel (continued)

Key management personnel totalled 39 and 40 individuals as of 31 December 2016 and 2015, respectively, including 3 and 4 independent non-executive directors as of 31 December 2016 and 2015 respectively.

### Other transactions with related parties

In December 2016 the Group increased its effective ownership interest in Starynska breeding farm to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 531,395 treasury shares held by the Group. The transaction was recognised within equity (Note 2).

In December 2015 the Group increased its effective ownership interest in Zernoproduct to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 830,511 treasury shares held by the Group. The transaction was recognised within equity (Note 2).

## 29. Contingencies and contractual commitments

### Operating Environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, illiquidity and volatility of financial markets. In January 2016, the agreement on the free trade area between Ukraine and the EU came into force. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In 2016, average inflation amounted to 13.9% comparing to 48.7% in 2015. Despite the fact that the cumulative inflation in Ukraine for the three latest years slightly exceeded 100%, management believes that the Ukrainian economy is not hyperinflationary due to slowing down of inflation during 2016 and lack of qualitative characteristics of the hyperinflationary economic environment.

The economic situation began to stabilize in 2016, which resulted in GDP growth around 1% and stabilization of Ukrainian Hryvnia. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 65% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015 and 2016, Ukraine received the first tranches of extended fund facilities (EFF) agreed with the IMF. Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

### Taxation and legal issues

Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and fines. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and fines, and these amounts could be material. While the Group believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 29. Contingencies and contractual commitments (continued)

### Taxation and legal issues (continued)

Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine 'On Amending the Tax Code of Ukraine and Certain Laws of Ukraine', which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

Management believes that the Group has been in compliance with all requirements of effective tax legislation and currently is assessing the possible impact of the introduced amendments.

Starting from 1 September 2013 the Tax Code of Ukraine introduced new, based on the OECD transfer pricing guidelines, rules for determining and applying fair market prices, which significantly changed transfer pricing ("TP") regulations in Ukraine.

The Group exports Vegetable oil, Chicken meat and related products, performs intercompany transactions, which may potentially be in the scope of the new Ukrainian TP regulations. The Group has submitted the controlled transaction report for the year ended 31 December 2015 within the required deadline, and has prepared all necessary documentation on controlled transactions for the year ended 31 December 2016 as required by legislation and plans to submit report.

As of 31 December 2016, the Group's management assessed its possible exposure to tax risks for a total amount USD 4,210 thousand related to corporate income tax (31 December 2015: USD 4,639 thousand). No provision was charged of such possible tax exposure.

As of 31 December 2016, companies of the Group were engaged in ongoing litigation with tax authorities for the amount of USD 6,069 (2015: USD 8,840 thousand), including USD 2,689 thousand (2015: USD 6,272 thousand) of litigations with the tax authorities related to disallowance of certain amounts of VAT refunds and deductible expenses claimed by the Group. Out of this amount, USD 2,592 thousand as of 31 December 2016 (2015: USD 5,784 thousand) relates to cases where court hearings have taken place and where the court in either the first or second instance has already ruled in favour of the Group. Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

### Contractual commitments on purchase of property, plant and equipment

During the years ended 31 December 2016 and 2015, the companies of the Group entered into a number of contracts with foreign suppliers for the purchase of property plant and equipment for development of agricultural operations. As of 31 December 2016, purchase commitments amounted to USD 2,656 thousand (2015: USD 13,312 thousand).

### Commitments on land operating leases

The Group has the following contractual obligations in respect of land operating leases as of 31 December 2016 and 2015:

	2016	2015
Within one year	18,207	14,443
In the second to the fifth year inclusive	57,212	44,037
After fifth year	43,257	37,848
	118,676	96,328

Ukrainian legislation provides for a ban on sales of agricultural land plots till 1 January 2018. There are significant uncertainties as to the subsequent extension of the ban. The current legislation has resulted in the Group holding land lease rights, rather than the land itself.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 30. Dividends

On 16 March 2016, the Board of Directors of MHP S.A. approved a payment of the interim dividends in an amount of USD 0.7529 per share, equivalent to approximately USD 80,000 thousand, which were paid to shareholders during the year ended 31 December 2016.

## 31. Fair value of financial instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosure" and 13 "Fair value measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. 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 instrument. 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 holdings of a particular instrument.

The fair value is estimated to approximate the carrying value for cash and cash equivalents, short-term bank deposits, trade accounts receivables, and trade accounts payable due to the short-term nature of the financial instruments.

Set out below is the comparison by category of carrying amounts and fair values of all the Group's financial instruments, excluding those discussed above, that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
	2016	2015	2016	2015
<b>Financial liabilities</b>				
Bank borrowings (Note 23)	503,980	535,391	490,923	522,469
Senior Notes due in 2020 (Note 24)	740,486	743,655	729,000	656,250
Finance lease obligations (Note 25)	13,625	23,622	14,079	23,654

The carrying amount of Senior Notes issued includes interest accrued at each of the respective dates.

The fair value of bank borrowings and finance lease obligations as of 31 December 2016 was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings: 8.3% (2015: 8.0%) and for finance lease obligations of 8.0% (2015: 7.0%), and is within Level 2 of the fair value hierarchy.

The fair value of Senior Notes was estimated based on market quotations and is within Level 1 of the fair value hierarchy.

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## 32. Risk management policies

During the years ended 31 December 2016 and 2015 there were no material changes to the objectives, policies and process for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through maintaining a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through new share issues and through the issue of new debt or the redemption of existing debt.

The Group's target is to achieve a leverage ratio (net debt to adjusted operating profit) of not higher than 3.0. The Group defines its leverage ratio as the proportion of net debt to adjusted operating profit.

As of 31 December 2016 and 2015 the leverage ratio was as follows:

	2016	2015
Bank borrowings (Note 23)	503,980	535,391
Bonds issued (Note 24)	740,486	743,655
Finance lease obligations (Note 25)	13,625	23,622
<b>Total Debt</b>	<b>1,258,091</b>	<b>1,302,668</b>
Less:		
Cash and cash equivalents and Short-term bank deposits (Note 19)	(154,570)	(59,343)
<b>Net debt</b>	<b>1,103,521</b>	<b>1,243,325</b>
<b>Operating profit before loss on impairment of property, plant and equipment</b>	<b>316,264</b>	<b>346,751</b>
Adjustments for:		
Depreciation and amortization expense (Notes 7, 8)	98,567	88,901
<b>Adjusted operating profit</b>	<b>414,831</b>	<b>435,652</b>
<b>Net debt to adjusted operating profit</b>	<b>2.66</b>	<b>2.85</b>

Debt is defined as bank borrowings, bonds issued and finance lease obligations. Net debt is defined as debt less cash and cash equivalents and short-term bank deposits. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 27). Adjusted operating profit is defined as operating profit adjusted for the depreciation and amortization expense and losses and gains believed by the management to be non-recurring in nature, as this measure produces results substantially comparable to those reviewed for the purposes of financial covenants under the Group's borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 32. Risk management policies (continued)

### Major categories of financial instruments

	2016	2015
<b>Financial assets:</b>		
Long-term bank deposits	577	4,125
Loans to employees and related parties	1,222	1,086
Other receivables	12,555	5,796
Trade accounts receivable, net (Note 18)	50,868	38,800
Cash and cash equivalents (Note 19)	154,570	59,343
	<b>219,792</b>	<b>109,150</b>
<b>Financial liabilities:</b>		
Bank borrowings (Note 23)	496,374	527,188
Bonds issued (Note 24)	725,361	728,530
Finance lease obligations (Note 25)	13,625	23,622
Amounts payable for property, plant and equipment (Note 27)	5,960	7,605
Accrued interest (Note 23,24)	22,731	23,328
Trade accounts payable (Note 26)	46,508	47,669
Accrued payroll and related taxes (Note 27)	24,638	22,163
tOther payables (Note 27)	4,786	5,700
	<b>1,339,983</b>	<b>1,385,805</b>

The main risks inherent to the Group's operations are those related to credit risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk, and commodity price and procurement risk.

#### Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer or group of customers. The approved credit period for major groups of customers, which include franchisees, distributors and supermarkets, is set at 5-21 days.

Limits on the level of credit risk by customer are approved and monitored on a regular basis by the management of the Group. The Group's management assesses amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. No assessment is performed immediately from the date credit period is expired. As of 31 December 2016 about 28% (2015: 32%) of trade accounts receivable comprise amounts due from 12 large supermarket chains, which have the longest contractual receivable settlement period among customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

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## 32. Risk management policies (continued)

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations the following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2016 and 2015. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

Year ended 31 December 2016	Carrying amount	Contractual Amounts	Less than 1 year	From 2nd to 5th year	After 5th year
Bank borrowings	503,980	547,622	261,040	274,611	11,971
Bonds issued	740,486	966,563	61,875	904,688	-
Finance lease obligations	13,625	15,325	8,854	6,471	-
<b>Total</b>	<b>1,258,091</b>	<b>1,529,510</b>	<b>331,769</b>	<b>1,185,770</b>	<b>11,971</b>
<b>Year ended 31 December 2015</b>					
Bank borrowings	535,391	589,901	275,066	297,949	16,886
Bonds issued	743,655	1,028,438	61,875	966,563	-
Finance lease obligations	23,622	25,055	15,207	9,848	-
<b>Total</b>	<b>1,302,668</b>	<b>1,643,394</b>	<b>352,148</b>	<b>1,274,360</b>	<b>16,886</b>

All other financial liabilities (excluding those disclosed above) are repayable within one year.

The Group's target is to maintain its current ratio, defined as the proportion of current assets to current liabilities, at the level of not less than 1.2. As of 31 December 2016 and 2015, the current ratio was as follows:

	2016	2015
Current assets	821,428	736,921
Current liabilities	381,020	373,401
	2.16	1.97

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Continued

## 32. Risk management policies (continued)

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, but the management of the Group sets limits on the level of exposure to foreign currency fluctuations in order to manage currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December were as follows:

	2016		2015	
	USD	EUR	USD	EUR
<b>ASSETS</b>				
Long-term bank deposits	-	577	-	4,125
Other non-current assets, net	5,039	-	-	-
Trade accounts receivable	20,315	117	12,823	-
Other current assets, net	8,408	-	1,554	-
Cash and cash equivalents	107,539	10,240	38,834	5,836
	<b>141,301</b>	<b>10,934</b>	<b>53,211</b>	<b>9,961</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade accounts payable	2,365	4,544	4,012	4,999
Other current liabilities	368	3,380	9	3,341
Accrued interest	22,570	161	23,023	305
Short-term bank borrowings	212,289	24,518	220,409	28,648
Short-term finance lease obligations	5,138	2,906	7,477	5,029
Current portion of bonds issued	-	-	-	-
	<b>242,730</b>	<b>35,509</b>	<b>254,930</b>	<b>42,322</b>
<b>Non-current liabilities</b>				
Long-term bank borrowings	241,685	17,882	234,463	43,668
Bonds issued	725,361	-	728,530	-
Long-term finance lease obligations	4,730	853	5,485	4,022
	<b>971,776</b>	<b>18,735</b>	<b>968,478</b>	<b>47,690</b>
	<b>1,214,506</b>	<b>54,244</b>	<b>1,223,408</b>	<b>90,012</b>

The table below (next page) illustrates the Group's sensitivity to a change in the exchange rate of the Ukrainian Hryvnia against the US Dollar and EUR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for possible change in foreign currency rates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 32. Risk management policies (continued)

### Currency risk (continued)

	Change in foreign currency exchange rates	Effect on profit before tax, gain/(loss)
<b>2016</b>		
Increase in USD exchange rate	10%	(107,321)
Increase in EUR exchange rate	10%	(4,331)
Decrease in USD exchange rate	5%	53,660
Decrease in EUR exchange rate	5%	2,166
<b>2015</b>		
Increase in USD exchange rate	10%	(117,020)
Increase in EUR exchange rate	10%	(8,005)
Decrease in USD exchange rate	5%	58,510
Decrease in EUR exchange rate	5%	4,003

The effect of foreign currency sensitivity on shareholders' equity is included in the statement of comprehensive income. There are no hedging activities in the other comprehensive income, so the statement of comprehensive income and the statement of changes in equity impacts are the same.

During the year ended 31 December 2016 the Ukrainian Hryvnia depreciated against the EUR and USD by 7.74% and 11.73% respectively (2015: depreciated against the EUR by 26.66% and 34.30% against the USD). As a result, during the year ended 31 December 2016 the Group recognized net foreign exchange losses in the amount of USD 145,217 thousand (2015: foreign exchange losses in the amount of USD 389,557 thousand) in the consolidated statement of comprehensive income.

In June 2016 the National Bank of Ukraine ("NBU") decreased a requirement to sell foreign currency proceeds from any export sales at Ukrainian interbank currency market to 65%. During the year ended 31 December 2016 USD 235 thousand (2015: USD 2,957 thousand) net foreign exchange gain resulting from the difference in NBU and Ukrainian interbank currency market exchange rates, was included in Other operating income.

The currency risk is mitigated by the existence of USD-denominated proceeds from sales of sunflower oil, grain and chicken meat, which are sufficient for servicing the Group's foreign currency denominated liabilities and were as follows during the years, ended 31 December 2016 and 2015:

	2016	2015
Vegetable oil and related products	295,596	241,481
Chicken meat and related products	243,725	189,175
Grain <sup>1)</sup>	85,960	109,444
Other agricultural segment products	14,409	1,146
	639,690	541,246

<sup>1)</sup> Grain export sales during the year ended 31 December 2016 includes USD 4,970 thousand (2015: USD 17,350 thousand) of gain received from operations, when goods are exchanged or swapped for goods which are of similar nature.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 32. Risk management policies (continued)

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). For variable rate borrowings, interest is linked to LIBOR or EURIBOR.

The below table illustrates the Group's sensitivity to increases or decreases of interest rates by 5% (2015: 5%). The analysis was applied to interest bearing liabilities (bank borrowings, finance lease obligations and accounts payable under grain purchase financing arrangements) based on the assumption that the amount of liability outstanding as of the reporting date was outstanding for the whole year.

	Increase/ (decrease) of floating rate	Effect on profit before tax, gain/(loss) USD ' 000
<b>2016</b>		
LIBOR	5%	(23,192)
LIBOR	-5%	23,192
EURIBOR	5%	(2,308)
EURIBOR	-5%	2,308
<b>2015</b>		
LIBOR	5%	(23,392)
LIBOR	-5%	23,392
EURIBOR	5%	(4,068)
EURIBOR	-5%	4,068

The effect of interest rate sensitivity on shareholders' equity is equal to that on statement of comprehensive income.

### 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 diseases, 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 minimize 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.

### Commodity price and procurement risk

Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To mitigate this risk the Group continues expansion of its grain growing segment, as part of vertical integration strategy, and also accumulates sufficient commodity stock to meet its production needs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2016

(in thousands of US dollars, unless otherwise indicated)

Continued

## 33. Pensions and retirement plans

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 31 December 2016 was USD 18,652 thousand and is recorded in the consolidated statement of comprehensive income on an accrual basis (2015: USD 24,826 thousand). In January 2011 in accordance with the Law of Ukraine "On charge and accounting of unified social contribution" certain changes in the administration of social charges were made and social charges are to become payable in the form of Unified Social Contribution, including contributions to the State Pension Fund by 22% of gross salary cost. The Group companies are not liable for any other supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

## 34. Earnings per share

The earnings and weighted average number of ordinary shares used in calculation of earnings per share are as follows:

	2016	2015
Profit/(loss) for the year attributable to equity holders of the Parent	63,835	(119,776)
Earnings/(loss) used in calculation of earnings per share	63,835	(119,776)
Weighted average number of shares outstanding	106,256,207	105,629,222
Basic and diluted earnings/(loss) per share (USD per share)	0.60	(1.13)

The Group has neither potentially dilutive ordinary shares nor other dilutive instruments; therefore, the diluted earnings per share equal basic earnings per share.

## 35. Subsequent events

On 17 February 2017 the Group sold its 100% ownership interest in the Group's companies located in Autonomous Republic of Crimea for cash consideration of USD 77,500 thousand. The consideration consisted only of cash, there were no direct costs related to disposal. As a result, the Group completely ceased to operate its fruit business, while poultry production capacities and meat processing capacities decreased by 6.5 % and by 12.6 %, respectively.

## 36. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issue by the Board of Directors of MHP S.A. on 14 March 2017.

