ovostar union

2016 Annual Report

Aspire. Create. Achieve.

CEO statement

Dear Shareholders,

During 2016 Ovostar Union has accomplished a lot: we installed one of the largest egg sorting machines in the world, we completed 4 new laying hens houses, we increased the share of export to the EU by more than 3 times. Even though 2016 was a challenging year due to still rather turbulent economic and legal environment in Ukraine, we are pleased that good operating and financial results were achieved.

Despite the decline in total industrial egg production in Ukraine over 2016, we increased the volume of eggs produced by 24% and expanded our share to almost 1/5th of the Ukrainian market. We kept our position of market maker in production of liquid egg products and also increased our share in production of dry egg products.

Over the year our geography of sales has expanded by a number of EU countries, which share in export revenue reached 20% in 2016. The export sales allowed us to partially offset the impact of Ukrainian Hryvnia devaluation. In 2017 we will continue developing our export markets in order to diversify the country and currency risks.

I am grateful for the outstanding performance of Ovostar Union team. I have an optimistic view of our future.

Sincerely,
Borys Bielikov
Chief Executive Officer

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1 Management Report

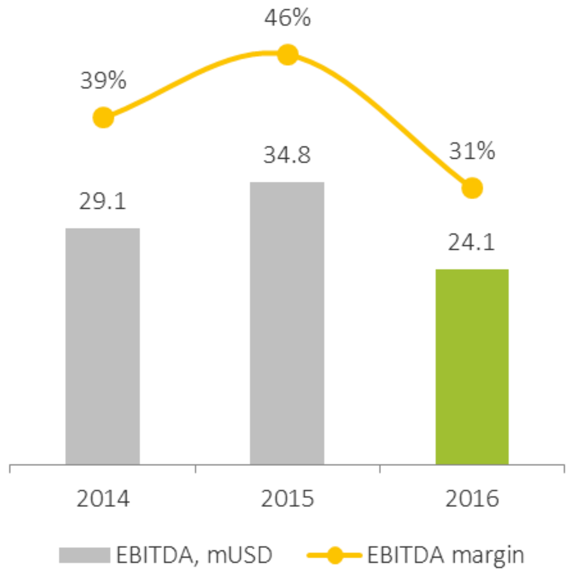
Key financials

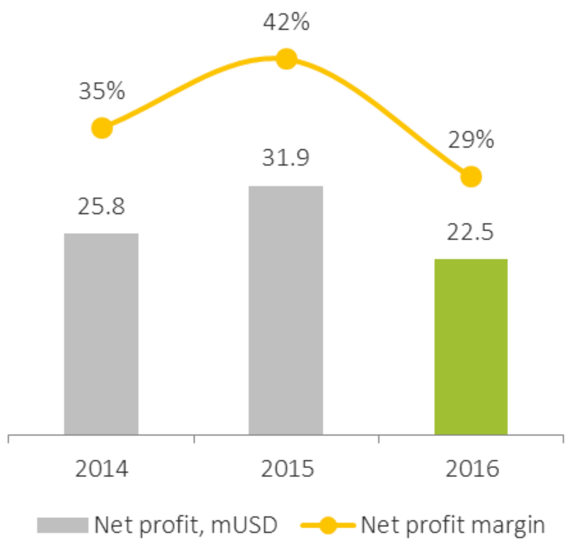
Income Statement

	2016	2015	YoY
Revenue	77.7	75.6	3%
Gross profit	26.1	32.4	(19%)
EBITDA	24.1	34.8	(31%)
Profit before tax	22.7	32.7	(30%)
Net profit	22.5	31.9	(29%)

Balance Sheet

	2016	2015	YoY
Assets	110.0	100.7	9%
Non-current assets	65.0	59.5	9%
Current assets	45.0	41.2	9%
Equity and Liabilities	110.0	100.7	9%
Equity	88.4	78.5	13%
Non-current liabilities	12.2	14.2	(14%)
Current liabilities	9.4	8.0	18%





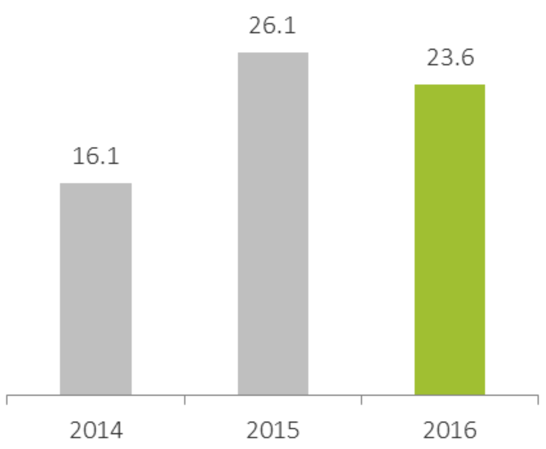
Cash Flows

	2016	2015	YoY
Net cash generated by operating activities	23.6	26.1	(9%)
Net cash used in investing activities	(17.1)	(15.2)	13%
Net cash generated by financing activities	(4.1)	(1.4)	2.9x

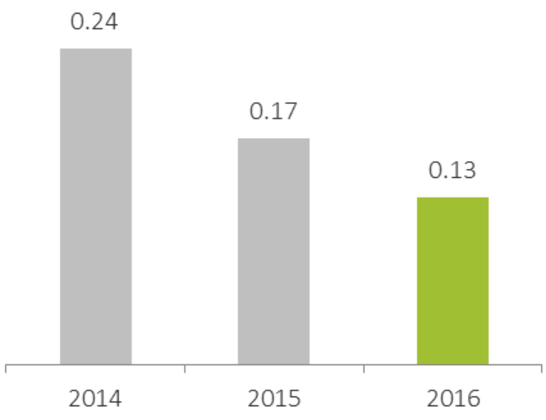
Net debt position

	2016	2015	YoY
Total debt	15.3	17.0	(10%)
Cash and cash equivalents as at 31 December	12.2	10.9	11%
Net debt	3.1	6.1	(49%)

Operating Cash Flow, mUSD



Net Debt to EBITDA



Corporate Summary

Ovostar Union N.V. is a holding entity incorporated under the laws of the Netherlands consolidating companies with production assets located in Ukraine (hereinafter referred to as “we, us”). Our shares have been quoted on the Warsaw Stock Exchange since June 2011.

Our mission is to produce ecologically clean and healthy food for Ukrainians and our international clients. We are growing organically and increasing gradually the volume of eggs produced, we are developing the export markets and supplying the shell eggs and egg products of consistently high quality around the countries of Middle East, Europe, Africa and Asia.

Within the egg segment, we constantly focus on meeting the demand of Ukrainian middle class consumers. With the shell egg portfolio of over 20 sub-brands we supply branded eggs to the largest retail chains in Ukraine. In addition, as a result of export markets development we are gradually increasing the deliveries of shell eggs outside of Ukraine.

Within the egg products segment, we offer the full range of egg products of both liquid and dry forms. The loyalty of largest food processing companies in and outside of Ukraine is achieved by adjusting the products to the clients’ needs while maintaining the superior quality.

Business Geography

Our production facilities are located in the Central part of Ukraine in Kyiv and Cherkasy regions within 130 km from each other. Production premises include one breeder farm with parent flock, one hatchery producing day-old pullets, two young laying hens sites and two laying hen farms. The egg processing plant is located on the premises of the laying hen farm in Vasylkiv. The fresh egg is delivered to the egg processing plant within 24 hours - this ensures the high quality of final egg products.

Auxiliary production consists of two fodder mills with a total capacity of 56 tons of fodder per hour and one oilseed processing plant, which produces two products: the oilseed meal and oil for internal use as a component of poultry feed. The remaining oil, which is not used internally, is sold. In 2015 there was a switch from sunflower seed to rapeseed processing due to attractive spot price of sunflower meal in Ukraine. In 2016 we continued to process the rapeseeds.

To ensure the high quality of final egg products, the fresh eggs are delivered to the egg processing plant **within 24 hours**

- Laying hens farm
- Laying hens farm + Egg processing plant + Fodder mill
- Young laying hens farm
- Hatchery + Breeder farm
- Fodder mill

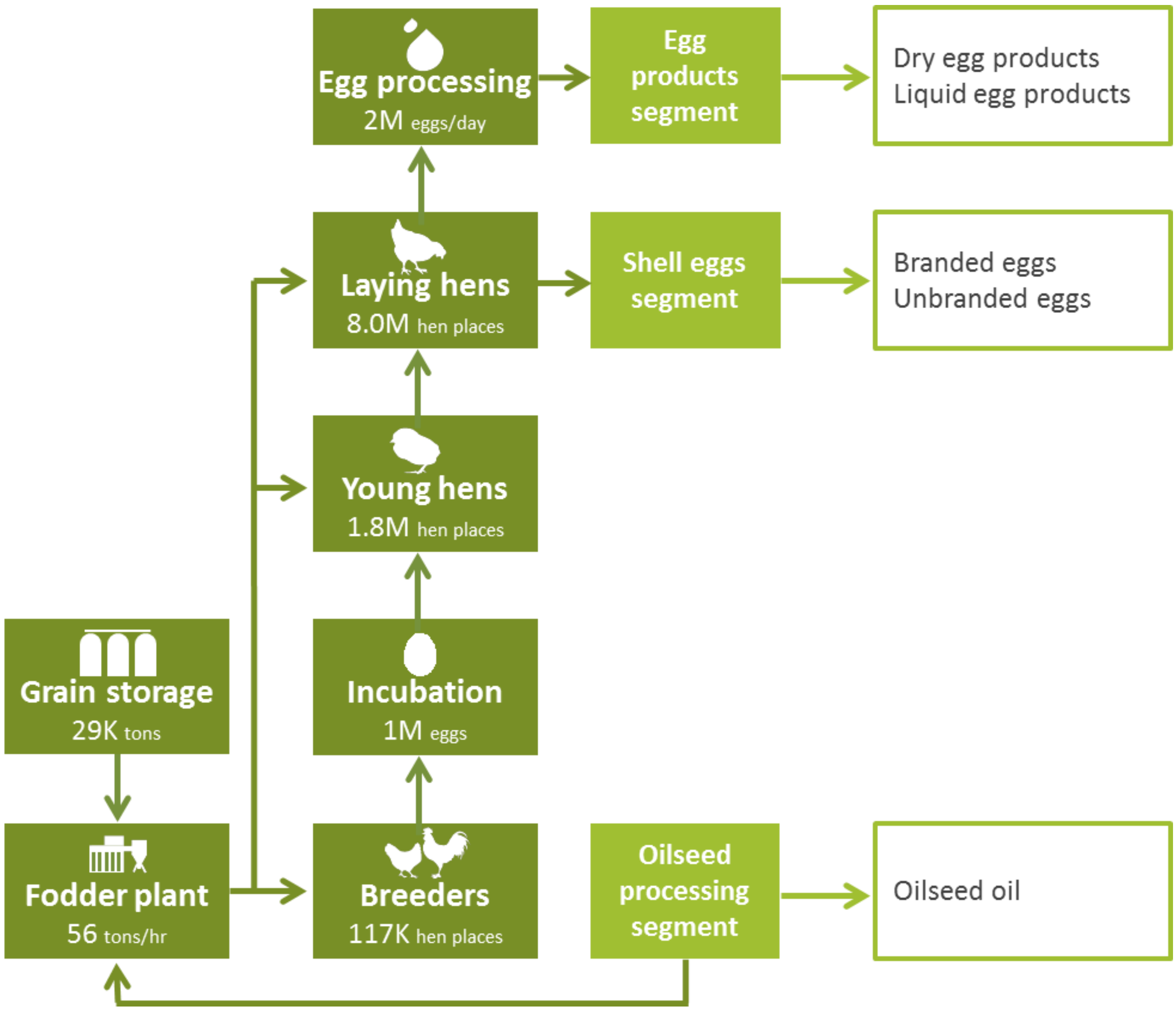
Business Model

We employ the most up-to-date poultry and processing equipment and progressive technological concepts at our production sites in order to ensure the efficiency of production processes and superior quality of final products.

Having initially adopted a large-scale production approach, our vertically integrated business model makes full production cycle spanning from parent flock to egg processing. In addition to core business we maintain our own fodder production, processing of rapeseeds and grain storage in order to ensure the high quality of the poultry fodder provided to our poultry flock.

High level of **vertical integration** allows us to optimize production costs and control product quality at each stage of the production process.

Our products are compliant with international quality standards ISO 9001:2008 and ISO 22000:2005, FSSC 22000 as well as applicable national Ukrainian standards and sanitary norms. We also possess the Halal Certificate to export internationally and are certified to export the egg products to the EU.



Our brands

Shell Eggs

We supply Ukrainian market with the widest range of packaged shell eggs under brand name Yasensvit™. Key customers of egg segment are large local and international retail chains in Ukraine as well as our international clients.

Price for branded packaged eggs is traditionally higher than the average egg price on the market. Having Yasensvit™ for over 15 years on the Ukrainian market, the price premium is justified by consumers' recognition of consistently high quality of products under Yasensvit™ brand and the wide range of assortment adjusted to specific consumer preferences.

In 2016 we kept the position of major producer of private label eggs in Ukraine. Our eggs branded by retail network labels are supplied to Auchan, Silpo, Metro, Novus, Furshet, ATB, Velyka Kyshenya, Eko and a number of smaller regional retail chains.

- Over 15 years on the Ukrainian market
- The most recognizable trademark
- Consistently high product quality
- Supplier to the largest retail chains in Ukraine
- Whole product portfolio of premium, standard, economy and private label categories

Shell eggs portfolio

- Premium
- Standard
- Economy
- Private label

Egg Products

We offer the whole range of separated and whole egg products in dry and liquid form under the Ovostar™ brand. The demand for egg products mainly comes from food companies in Ukraine and abroad.

The egg products segment is B2B-oriented as the egg products are used for production of confectionary, mayonnaise, meat products. Each client demands the egg product with specific characteristics needed for the final good. Our flexibility to adjust to clients' needs maintains the loyalty of our major clients as well as our position of largest producer of liquid egg products in Ukraine.

Among our key local customers are Roshen, Mondelez Ukraine, Kharkiv Biscuit, and Kyivkhlib (Kyiv Bread). We are also the exclusive supplier of eggs and egg products to McDonalds Ukraine.

As commodities the egg products allow us to offset the seasonal price fluctuations that are present on local shell egg market throughout the year, and to even the profitability throughout the reporting periods.

OVOSTAR

- Over 10 years on the Ukrainian market
- Market maker in liquid egg products
- Consistently high product quality
- Supplier to the largest food processing companies in and outside of Ukraine
- Whole assortment of liquid and dry egg products

Egg products portfolio

Dry

Whole egg

Egg white

Egg yolk and fermented egg yolk

Liquid

Whole egg

Egg white

Egg yolk and fermented egg yolk

Market overview and competitive position

During 2016 the inflation rate in Ukraine and devaluation of Ukrainian hryvnia has slowed down in comparison to 2015. The economy of Ukraine is showing the signs of recovery. However, instability of the country's macroeconomic situation and low purchasing power of Ukrainians have a negative impact on the egg producers.

Laying hens flock

Ukrainian egg market is characterized by significant share of laying hens farmed by households from April to September, therefore, it can be assumed that the number of laying hens provided by State Statistics Service of Ukraine as at the end of the year presents the industrial flock.

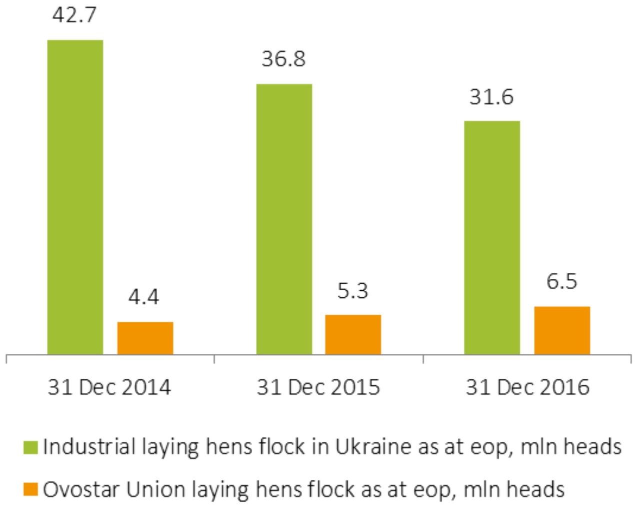
As at 31 December 2016 the industrial laying hens flock again decreased by 14% and reached 31.6 million heads (2015: 36.8 million heads). The main reasons are the complicated market conditions and legal environment in Ukraine over the last 2 years.

Despite that, Ovostar Union continues as declared to follow its investment program and expand its production facilities. The number of laying hens of Ovostar Union has increased by 47% over past 3 years: from 4.4 to 6.5 million heads. The growth in volumes produced is mainly directed to export markets.

20% - share of Ovostar Union in industrial laying hens flock of Ukraine (2015: 15%).

Laying Hens Flock: Ukraine and Ovostar as at 31 December, mln heads

(excluding Crimea and parts of Donetsk - Lugansk regions)



Source: State Statistics Service of Ukraine

Shell egg market

As a result of decrease in laying hens flock in Ukraine during the reporting period, the total volume of shell eggs produced in Ukraine declined by 10% and amounted to 15.1 billion (Source: State Statistics Service of Ukraine).

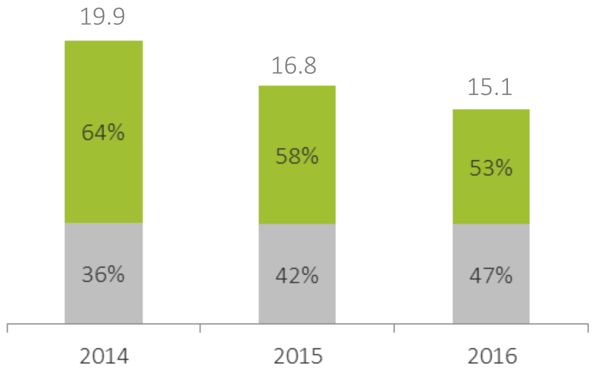
The Ukrainian shell egg market is historically divided into industrial and household production. While the household egg production remained unchanged, the industrial egg production experienced a decrease of 17%. The share of eggs produced in industrial format declined to 53% (8.1 bln pieces) in 2016 from 58% (9.8 bln pieces) in 2015.

In 2016 egg consumption rate in Ukraine reached approximately 258 eggs per capita according to the data of Ukrainian Poultry Farmers Union.

18% - share of Ovostar Union in industrial egg production of Ukraine (2015: 12%).

Total Egg Production in Ukraine, bln pcs

(excluding Crimea and parts of Donetsk - Lugansk regions)



Source: State Statistics Service of Ukraine

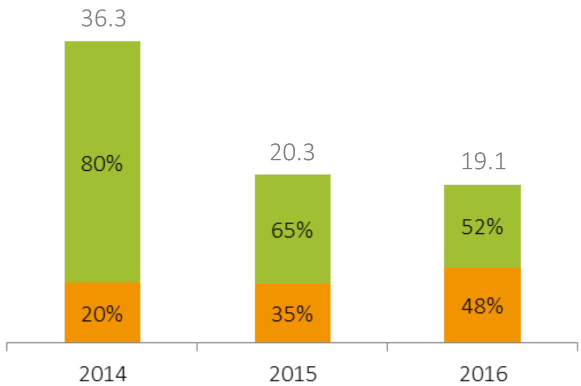
Egg products market

As a consequence of the lower volume of egg production in 2016, the volume of egg processing also decreased. Over the reporting period, the production of dry egg products decreased by 24%.

On the contrary, the production volume of liquid egg products market in Ukraine significantly increased due to growth in production by our company. We kept our leading position in this sector.

Production of Egg Products in Ukraine, ths tons

(excluding Crimea and parts of Donetsk - Lugansk regions)



Source: State Statistics Service of Ukraine

23% - share of Ovostar Union in production of dry egg products in Ukraine (2015: 15%).

97% - share of Ovostar Union in production of liquid egg products in Ukraine (2015: 94%).

Activity in key segments

EGG SEGMENT

Production | In 2016 our egg production volume increased by 24% year-on-year to 1 479 mln eggs (2015: 1 196 mln eggs). Following our investment program, we are gradually expanding our production capacities. As at 31 December 2016 our total flock grew by 16% to 7.6 mln hens, while our laying hens flock increased by 22% and reached 6.5 mln hens.

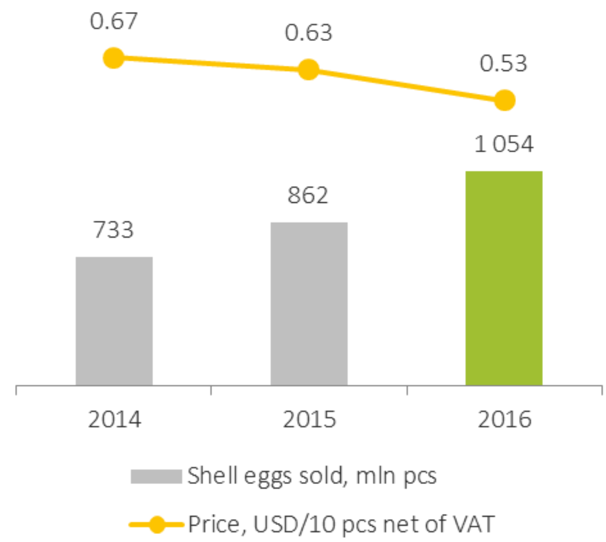
Sales | Volume of eggs sold in 2016 increased by 22% to 1 054 mln eggs, what resulted into USD 53.6 million of total revenue including other sales (2015: USD 53.2 million).

Ukraine is our major market and our supply of eggs on the local market amounted to 746 mln eggs or 71% of our sales volume (2015: 634 mln eggs or 73%). In 2016 the volume of eggs exported increased by 34% from 229 to 307 mln eggs. The export price in 2016 was slightly higher than the local price in USD terms.

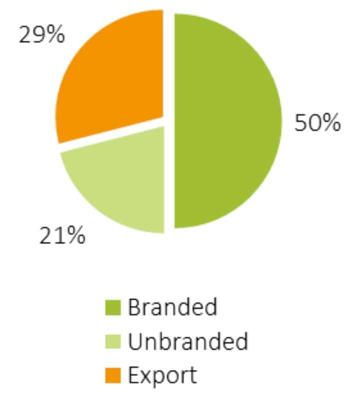
Our average selling price of shell eggs over the year remained mostly the same and amounted to 1.348 UAH/egg compared to 1.374 UAH/egg in 2015. In USD terms the average selling price was lower by the rate of the UAH devaluation.

USD 55.7 million
segment revenue in 2016
(2015:USD 55.6 million)

SHELL EGGS SALES



SHELL EGGS SALES STRUCTURE IN 2016



EGG PRODUCTS SEGMENT

Production | In 2016 the Company processed 407 mln eggs (2015: 347 mln eggs). The production plan of egg products was adjusted to the stronger demand on liquid egg products from the EU countries. In 2016 this segment generated USD 21.1 million of total revenue (2015: USD 18.2 million).

Sales | Volume of dry egg products sold increased by 9% to 2 125 tons, while volume of dry egg products exported reached 1 320 tons compared to 908 tons in 2015. Average selling price of dry egg products increased by 13% year-on-year in UAH terms to 121.44 UAH/kg and declined by 3% in USD terms to 4.75 USD/kg.

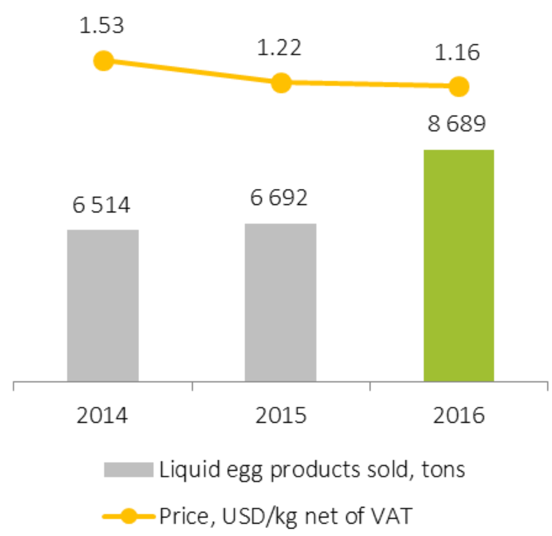
Sales volume of liquid egg products increased by 30% to 8 689 tons (2015: 6 692 tons). As a result of EU-Ukraine Free Trade Agreement, we managed to direct 25% of sales volume to the EU countries. Average selling price of liquid egg products increased by 10% year-on-year in UAH terms to 29.56 UAH/kg and declined by 5% in USD terms to 1.16 USD/kg.

USD 21.1 million

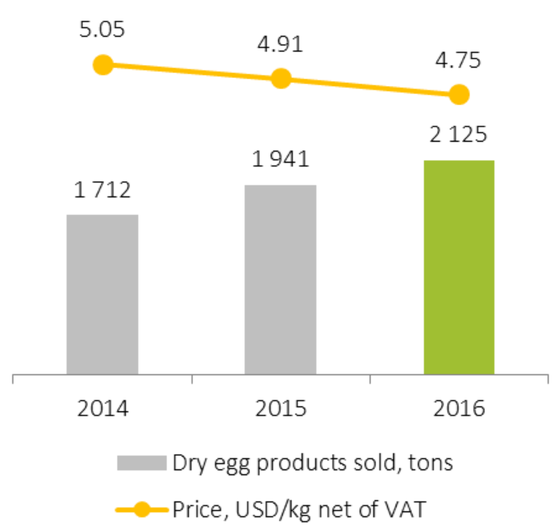
segment revenue in 2016

(2015:USD 18.2 million)

LIQUID EGG PRODUCT SALES

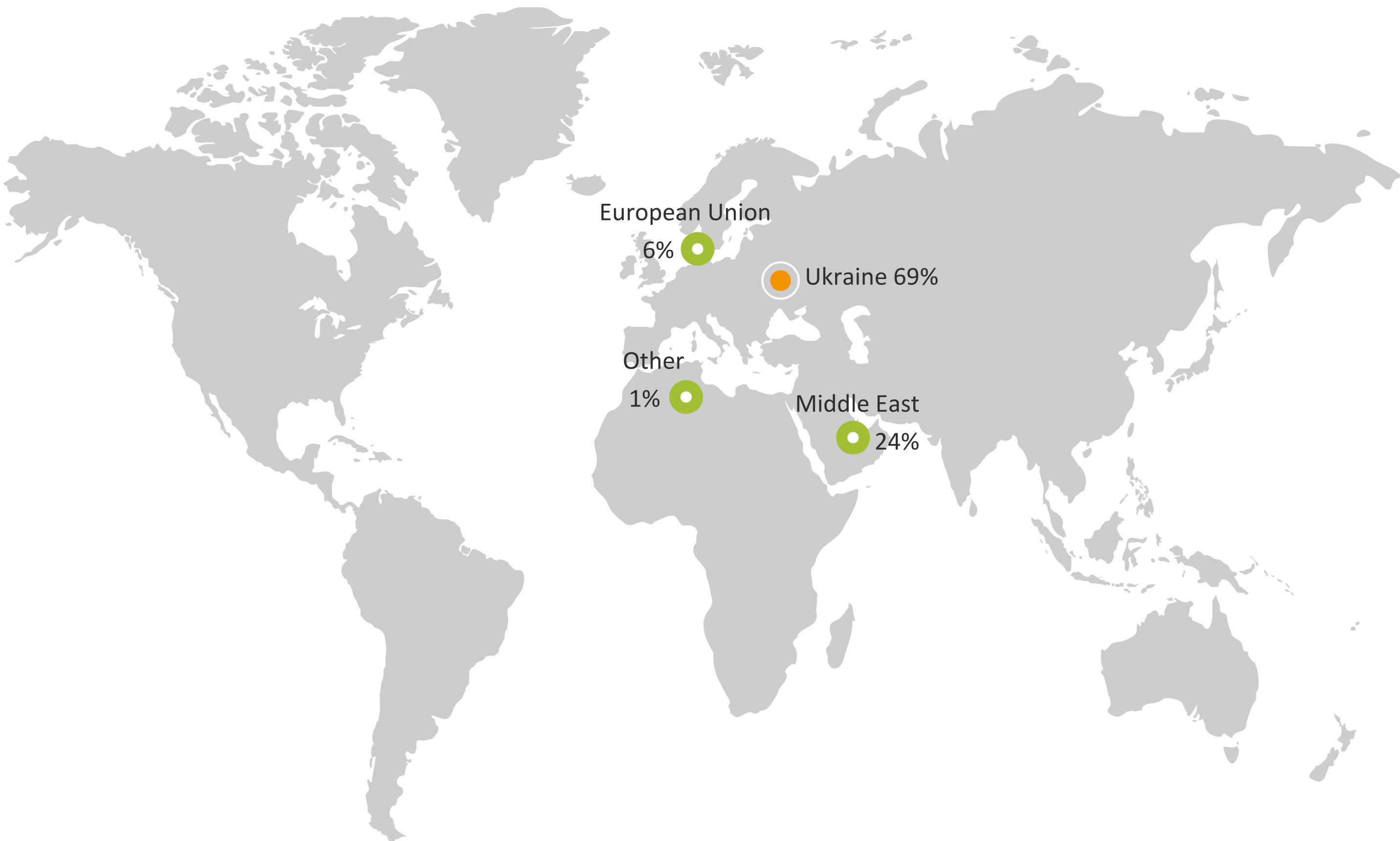


DRY EGG PRODUCT SALES



Sales Geography by Revenue

USD 24.0 million
export revenue in 2016
(2015:USD 21.6 million)



Export markets development

The revenue from export sales over 2016 increased by 11% to USD 24.0 million and was received mostly in USD and EUR.

Middle East remains our key export market as the region is rather close in distance via sea transportation and can offer an attractive price for eggs and egg products.

As EU-Ukraine deep and comprehensive free trade agreement was enforced, we are gradually increasing our export sales to the EU since June 2015.

Financial results overview

Financial Performance

The devaluation of Ukrainian Hryvnia, which during 2016 amounted to 17%, continues to affect our financial results. Despite the over-15%-increase in sales volumes of our products, the revenue increased by 3% only. Besides that the new amendments to the Tax Code of Ukraine on special VAT treatment regime and cancellation of export tax for grain producers were introduced for the year of 2016, which have negatively affected our EBITDA margin.

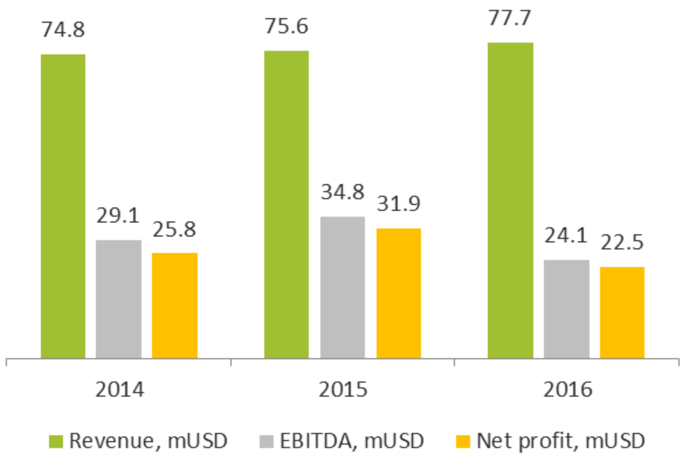
Revenue | The revenue in 2016 increased by 3% to USD 77 740 ths from USD 75 606 ths. Historically, the egg segment contributed the most (USD 55 660 ths) generating 72% of total revenue. The egg products segment achieved USD 21 111 ths or 27% of total revenue in 2016. The remaining has been contributed by the oilseed segment (USD 969 ths).

Gross profit and cost of sales | The cost of sales increased by 15% year-on-year as a result of the growth in production volumes and recovery of fodder price in UAH. Therefore, the gross profit reached USD 26 097 ths, a 19% decline compared to 2015.

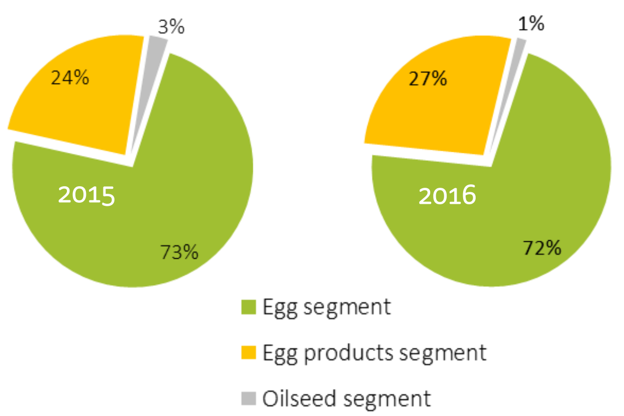
EBITDA | The main factor that negatively affected EBITDA was the significant decline of 80% in income from special VAT treatment, when comparing 2016 and 2015. In addition to that, the transportation costs increased by slightly more than 2 times mainly as a consequence of growth in export volumes, especially the increase in export to the EU countries. Consequently, EBITDA reached USD 24 130 ths, a 31% decrease year-on-year.

Net profit | In 2016 net profit declined by 29% to USD 22 533 ths.

Profitability Dynamics, mUSD



Sales Structure by Revenue

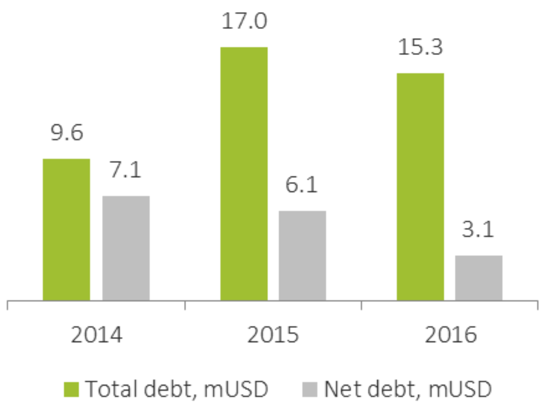


Financial position

Assets, liabilities and equity | In 2016 value of our total assets increased by 9% to USD 110 003 ths. Over the year we constructed four new laying hens houses and the total flock by 16%, consequently, the value of non-current assets went up by 9%. Accumulated cash reserves together with increased current biological assets and accounts receivable resulted in 9% growth of current assets.

The total equity in 2016 increased by 13% and amounted to USD 88 404 ths. Even though the retained earnings grew up by 24%, the accumulated foreign currency translation reserve also increased by 11%.

Loans and borrowings | During 2016 no loans were obtained. We have been meeting our payment obligations on time. The total amount of interest-bearing loans and borrowings at the end of the year decreased by 10% and amounted to USD 15 275 ths. We experienced a positive effect from strengthening USD against EUR. Historically being debt-averse, we consistently keep the net debt indicator at low level via accumulation of a significant amount of cash in our bank accounts in Ukraine and outside (USD 12 178 ths in 2016). The net debt to EBITDA ratio at 31 December 2016 amounted to 0.13.



Cash flow

In 2016 we maintained positive operating cash flow of USD 23.6 million.

Net cash flow used in investment activities mostly consisted of purchase of plant, property and equipment in the amount of USD 6.4 million and expenditures on biological assets of USD 9.7 million.

Net cash flow used in financing activities in 2016 amounted to USD 4.1 million.

	2014	2015	2016
Operating CF, mUSD	16.1	26.1	23.6
Investing CF, mUSD	(17.6)	(15.2)	(17.1)
Financing CF, mUSD	(3.5)	(1.4)	(4.1)

Notes to the Financial Statements

Financial reporting standards | The Consolidated Financial Statements (CFS) of Ovostar Union N.V. have been prepared in accordance with IFRS standards, as adopted by the European Union. Note 2 to the Consolidated Financial Statements contains more detailed information on this item.

Transactions with related parties | Note 26 to the CFS of Ovostar Union N.V. contains more information on transactions with related parties.

Changes in accounting policy | Note 6 to the CFS of Ovostar Union N.V. contains more information on changes in accounting policy.

Financial instruments | Note 29 to the CFS of Ovostar Union N.V. contains more information on financial instruments.

Strategy and outlook for 2017

Strategy

We aim to strengthen our market position via gradual organic growth, customer loyalty, and expansion of our presence outside of Ukraine. Operating in turbulent conditions of Ukrainian economic situation and legal environment we focus on consistently high quality of our products and long-term relationships with our clients.

The results we deliver are based on commitment of every employee. The cooperation across departments results in higher productivity of day-to-day operations and stronger synergy effect. During 2017 we are intended to continue advancing employee skills to be even more competitive and efficient.

Key elements of the Group's strategy and achievements in 2016:

Organic growth and advance in vertical integration:

- 4 laying hens houses were constructed during 2016
- Increase of 22% in laying hens flock and 24% in egg production volume
- A new egg sorting machine with capacity of 240 ths eggs per hour was installed

Strengthening of Yasensvit and Ovostar brand positions:

- 10 new types of egg products have been developed for the EU countries
- A number of promoting events were organized throughout 2016
- A stable demand on branded products

Development of export markets:

- Increase in share of the EU in export revenue from 6% to 20%
- Export to Middle East countries remains stable

Outlook for 2017

Following our investment program we continue expanding our production capacities and, consequently, increasing egg production volumes. As Ukrainian Hryvnia has still been volatile during 2016, we strongly focus on increasing the export volumes of shell eggs and egg products further. The export revenue that is mostly generated in USD and EUR is a natural hedge on our currency risk and it also increases the predictability of our periodic financial results in the presentation currency.

In 2017 our export sales are expected to generate over 35% of our total revenue. In terms of operating numbers, we expect the share of export in total sales volume of shell eggs to be over 30%, of dry egg products - over 60% and of liquid egg products - over 30%.

Investment program update

With aim to produce over 2 billion eggs per year we continue to follow our organic growth strategy. During 2016 four laying hens houses were constructed at Stavysche production site.

60% - of investment program is completed

As EU-Ukraine trade agreement was enforced, we started to export egg products to the EU in June 2015. European shell egg market is attractive for us, but has more demanding requirements for poultry farming – the enriched cage. All sets of equipment that were installed at Stavysche production site are compliant with the EU standards. Currently, we are in the process of obtaining a certificate that allows exporting the shell eggs of class A (table eggs) to the EU countries.

During 2017 we plan to focus on strengthening our vertical integration and advancing the efficiency of operations by constructing several units of supporting infrastructure.

Forecasted Production Volumes

		2015	YoY (16/15)	2016	YoY (17/16)	2017
Laying hens flock	mln heads	5.3	22%	6.5	9%	7.1
Shell eggs production	mln eggs	1 196	24%	1 479	15%	1 700
Dry egg products production	tons	1 924	17%	2 252	11%	2 500
Liquid egg products production	tons	6 787	30%	8 823	11%	9 800

Human resources

The majority of our employees are involved in production processes on the premises located in Kyiv and Cherkasy regions. We recruit, employ and promote employees on the sole basis of their qualification and abilities. Equal employment opportunities and career perspectives are provided for all employees, regardless of their gender, age, nationality or religious views.

Our personnel policy is aimed to create and retain a well consolidated and highly professional team of individuals that are able to respond effectively to changing market environment. We strive to ensure a positive, productive and successful work environment. The level of satisfaction is, among other criteria, confirmed by high employee retention rates (97% on average for the last 5 years).

97% - retention rate in 2016

We aim to maintain a fair and comprehensive system of remuneration. Overall remuneration of our employees is divided into material and non-material portions. Material remuneration consists of a basic fixed salary plus a variable component like bonuses that depend on achievement of corporate and personal targets.

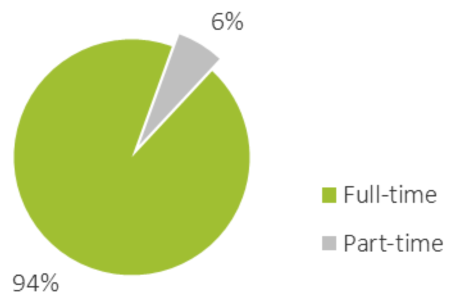
We also compensate our employees for mobile communication and expenses for use of personal vehicles for business purposes. Non-material remuneration consists of professional trainings, corporate team-building events and free use of corporate gym.

Legal relationships between us and our employees are regulated by the Labor Code of Ukraine and executed in the form of term and termless labor agreements. We cooperate with the State Pension Fund making monthly social insurance contributions. A corporate pension schedule has not been established.

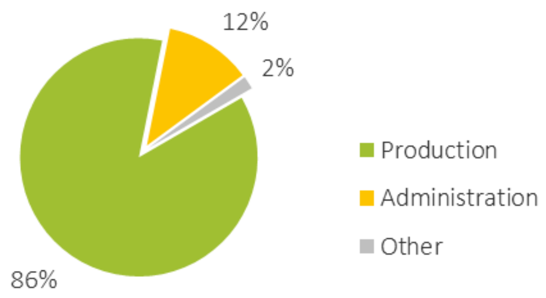
Our employees other than some of the Board members do not have any shareholdings in Ovostar Union N.V., nor do they hold any stock options or other rights to shares nor participate in any other way in the capital of Ovostar Union N.V. Currently, no arrangements relating to such participation are planned in the short-term perspective.

	2014	2015	2016
Employees, end of year	1 336	1 266	1 326

Full-time | Part-time employment in 2016



Employee expertise in 2016



Risk management and internal control

Risk	Impact	Mitigation	2016 status / Notes
Biological risks	Outbreaks of highly-pathogenic avian influenza in Europe and in the south of Ukraine may severely limit our ability to perform normal operations and reduce the possibility to export	Adherence to biosecurity standards in line with the best international practices. Egg production and egg processing facilities are compliant with ISO 9001: 2008 and ISO 22000: 2005. Diversification of sales channels	No occurrences of dangerous poultry diseases have been ever registered on our premises. We control all the processes along the full production cycle in order to provide the highest quality and ability to react fast in case of need
Macroeconomic risks	Depreciation of Ukrainian Hryvnia leads to deterioration of income per household and change in consumer preferences	Worsening economic conditions has little effect on consumption of eggs per capita because eggs remain the most affordable source of animal-based protein	In 2016 egg consumption amounted to 258 eggs per capita. The decrease in consumption is caused by lower purchasing power of Ukrainians. Despite that our volume supplied to Ukraine was not affected
	Poor economic conditions result in lack of debt financing available	Historically, we have been reliant primarily on own positive cash flow and debt financing is used only for implementation of long-term investment programs. To eliminate the current instability of Ukrainian economy, we accumulated the cash on our bank accounts in foreign-owned banks in Ukraine and outside	We use export financing with comparatively low effective interest rate. As at 31 December 2016 the net debt amounted to USD 3.1 mln, while the net debt to EBITDA ratio was 0.13
	VAT reimbursement and other advantages to agricultural companies are cancelled	We are primarily focused on operational efficiency	Starting from 2017 special VAT treatment policy is cancelled, while the governmental subsidies are introduced instead

Risk	Impact	Mitigation	2016 status / Notes
Price risk	Devaluation of Ukrainian Hryvnia leads to lower price per item in USD terms and thereby decreases periodic financial results	Increase of export sales is a natural hedge against currency rate fluctuations. Higher cost incurred in UAH is being steadily transferred to the final consumer through an increase of UAH-based prices for shell eggs and egg products on the local market	In 2016: – share of revenue generated from export sales reached 31% (2015: 29%) – UAH-based price of shell eggs remained the same, of dry egg products increased by +13%, liquid egg products by +10% YoY
Liquidity risk	Current capital restrictions of National Bank of Ukraine may limit the possibility to meet the financial obligations when due	We strictly control our working capital	As at 31 December 2016 all payment obligations were met on time. In 2016 a trading company was established in order to accumulate part of the revenue outside of Ukraine
Concentration of sales	Excessive concentration of sales may lead to financial instability in case of loss of key customer	Our customer base is mixed in terms of size and industry. We are building a balanced customer portfolio	In 2016 only 2 clients generated more than 10% of our total revenue (14% and 12%)
Competition	Offering from the existing competitors or new market entrants may weaken our competitive position	We have a unique for Ukraine vertically integrated business model with facilities in close proximity to each other, what results in high production efficiency. Having been offering products of consistently superior quality and adjusting to the market demands, we achieved the recognition and loyalty of our customers	In 2016 Yasensvit^{TM} brand celebrated its 15th anniversary maintaining the position of the most-recognized brand in Ukraine. We also have a possibility to effectively diversify our sales to destinations outside Ukraine

Risk	Impact	Mitigation	2016 status / Notes
Climate risks	Extreme weather conditions can have a detrimental effect on the well-being of poultry flock and their production efficiency	Our egg production facilities are equipped with an automatic climate-control system	Optimal climate conditions for laying hens include 40-60% humidity and ambient temperature within 20-25°C

Risk management

Risk management is an essential part of the decision-making process providing reasonable assurance that risks are controlled to the furthest extent possible. Risk management and internal control systems are being regularly discussed with the executive management and the Audit Committee. In their review of our risk profile, the main focus is placed on principal risks that could significantly deteriorate our operational and financial results.

It has to be noted that proper identification of risks significantly reduces but does not completely eliminate the possibility of human error, poor judgment in decision making, fraud or occurrence of unforeseeable events. The risks that we face in the course of regular operations are not limited to the risks described above, but those above are regarded as the most significant in the short-term perspective. At the moment no anti-takeover measures are in place. Some risks are yet unknown and some risks that are insignificant at the moment could become material in the future.

Internal control system

The Board of Directors is ultimately responsible for establishing, controlling and enhancing our internal control system. We consider risk management to be a continuous process of monitoring, assessing and mitigating risks through internal control systems and procedures at each level within the organization.

We use guidelines, instructions and procedures applied to operations, financial reporting, planning, human resource and customer management etc.; these are being reviewed and updated on a regular basis. Our employees are trained to implement and comply with these guidelines, instructions and procedures.

Key elements of the internal control system are budgeting, investment management, operational management and financial reporting. They monitor the progress and the actual results of the company's operating activities. We also use a staff evaluation and appraisal system. The process of enhancement of the internal control system will be continued in 2017.

For more information on risks please refer to Note 28 of the 2016 Consolidated Financial Statements.

Deficiencies of the system

In 2016, we did not identify any material weaknesses of the internal control system that might adversely impact our operational activity, financial results and financial position. The risks are clearly identified and controlled to the highest possible extent by our top management within their relevant function.

Shareholder and share information

Share capital structure

According to publicly available information as at 31 December 2016, shareholders of Ovostar Union N.V. with substantial participation of at least 5% of all votes at the General Meeting of Ovostar Union N.V. shareholders are listed in the table.

At 31 December 2016 total share capital of Ovostar Union N.V. was 6 000 000 shares. Each share has a nominal value of one vote at the General Meeting of Shareholders.

Share capital structure at 31 December

	2014	2015	2016
Prime One Capital Ltd	71%	70%	70%
Generali OFE	10%	10%	10%
Fairfax Financial Holdings	-	5%	5%
Aviva OFE	5%	5%	5%
MetLife (Amplico)	6%	-	-
Others	8%	10%	10%
Total	100%	100%	100%

Source: Warsaw Stock Exchange

Changes in shareholders' structure

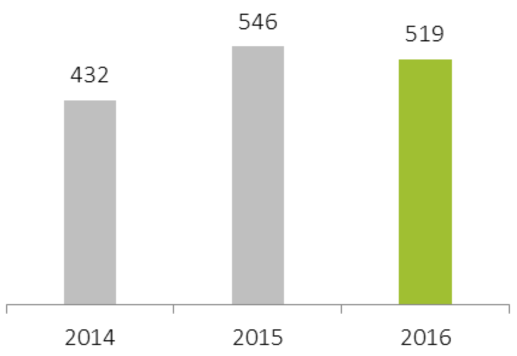
During 2016 there were no changes in the structure of shareholders.

Key quotation indicators

Share price, PLN	2014	2015	2016
Opening	100	72	91
Maximum	100	92	99
Minimum	59	67	84
Closing	72	91	87

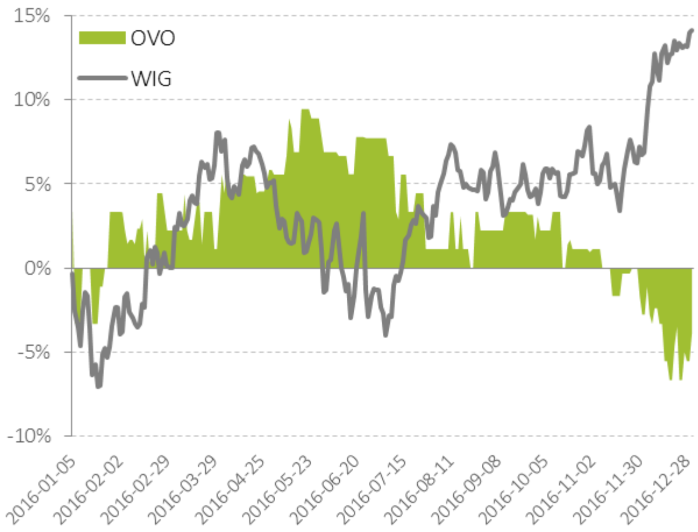
Source: Warsaw Stock Exchange

Market capitalization at 31 December, mPLN



Source: Warsaw Stock Exchange

Share price dynamics in 2016: OVO vs WIG-index



Source: Warsaw Stock Exchange

2

Governance Report

The Board of Directors

Composition and duties of the Board

Our Board of Directors has a one-tier structure, consisting of executive and non-executive directors. The executive director is authorized to represent Ovostar Union Group in its everyday operations, while the non-executive directors monitor the activities, supervise and advise the executive director. Currently, the Board consists of four members: one executive director Mr. Borys Bielikov and three non-executive directors Mr. Vitalii Veresenko, Mr. Marc van Campen, and Mr. Sergii Karpenko.

Duties of the non-executive directors include among other things supervision of the executive management's adherence to the established corporate strategy, proper compliance with best practices of corporate governance and general operational issues. Performing their duties, the non-executive directors have participated in the meetings of the Board of Directors in 2016. No cases of non-compliance with rules and requirements that would have required the intervention of the non-executive directors have been detected in 2016.

The Terms of Reference, governing the decision-making process of the Board, is available on our website http://ovostar.ua/en/ipo/rules/.

Chairman of the Board and Corporate Secretary

The Chairman of the Board of Directors determines the agenda, heads the Board meetings and is responsible for the proper functioning of the Board. This position is always selected among the non-executive directors, and is appointed during the first meeting of the Board. Our Chairman of the Board currently is Mr. Veresenko.

Chairman of the Board is assisted by the Group's Corporate Secretary, whose duty is the observance of all necessary procedures for the Board of directors and compliance of their activities with the requirements specified in the Group's Articles of Association. The Corporate Secretary is appointed and dismissed by the Board.

Voting

Each member of the Board is entitled to one vote taking resolutions during the Board meeting. All resolutions of the Board are taken by an absolute majority of votes. In the case of a tie in votes, the Chairman of the Board of Directors has a casting vote.

Representation

Members of the Board represent Ovostar Union Group and the Board has the authority to appoint any official as a representative, and to determine the list of his/her powers. The executive director is authorized to represent the Group on his own and to sign documents on behalf of the Group. In case of a conflict of interest between the Group and one of the directors, the conflicted director may not participate in the decision-making process concerning the matter causing the conflict.

Members of the Board are appointed and may be suspended or dismissed from their position by the General Meeting of Shareholders. Any suspension may be extended several times, but the total period of suspension from duties shall not exceed three (3) months. Share ownership in the Group is not required to qualify as a member of the Board.

Shareholding by the Board members and insider trading

We have established the Securities Rules, followed by the Board members at the acquisition of securities share and transactions with them. Regarding the acquisition of shares and equity participation, the Board members and other persons related to us follow the conditions and requirements of the EU Market Abuse Directive and our Insider Trading Rules, which reflect the essence of this directive. Securities Rules and Insider Trading Rules are available on our website: http://ovostar.ua/en/ipo/rules/

Statement of the Board of Directors

The Board of Directors of Ovostar Union N.V. hereby confirms that (1) neither of the Board members is a member of the Supervisory Board of - or holds the position of non-executive director at more than two listed companies; (2) neither of the Board members holds the position of the Chairman of the Supervisory Board - or of the board of directors, in case such board consists of executive and non-executive directors - of other companies, except for our enterprises.

Change in the Board structure

During 2016 there were no changes in the structure of the Board of Directors.

The Board of Directors

Name	Borys Bielikov	Vitalii Veresenko	Marc van Campen	Sergii Karpenko
				
Biography	Mr. Bielikov has over 17 years of experience in poultry industry. Mr. Bielikov has started his career in UkrOptServis LLC in 1993. From 1997 to 1998 he occupied the position of deputy director at UkrAgroTrade LLC. Mr. Bielikov graduated from the National Aviation University in 1994.	Mr. Veresenko has over 18 years of experience in poultry industry. Mr. Veresenko formerly occupied position of director at Dyvosvit LLC. Mr. Veresenko graduated from Kiev Air Defence Radio Technical Engineers College in 1990.	Mr. van Campen held several positions at Océ van der Grinten N.V., and until 2002 had been the general counsel at NBM-Amstelland N.V., at that time one of the largest companies in the construction sector in the Netherlands listed on the Amsterdam Stock Exchange. In addition Mr. Van Campen held the director's position in a number of other Dutch companies. Mr. Van Campen graduated from Nijmegen University in 1968.	Mr. Karpenko served as a Deputy Head of investment policy and agrarian business in Ministry of agrarian policy of Ukraine from 1997 to 2003. Starting from 2003 Mr. Karpenko has been working at Association «Union of Poultry Farmers of Ukraine» and since 2006 he is an Executive Director of Association. Mr. Karpenko graduated from National agrarian university majoring in Agricultural management (1997).
First appointment	2011	2011	2011	2015
(Possible) reappointment	2019	2019	2019	2019
Dependency status	Dependent	Dependent	Independent	Independent
External appointments	No	No	Director at Astarta Holding N.V. listed on the WSE as well as in Montferland Beheer B.V., the European subsidiaries (outside Italy) of Salvatore Ferragamo SpA and Lugo Terminal Srl.	Executive Director of Association «Union of Poultry Farmers of Ukraine»

Committees of the Board of Directors

Audit Committee

The Board of Directors has established an Audit Committee in order to meet the necessary corporate governance requirements and to ensure our financial transparency.

The Audit Committee is responsible for advising and monitoring the activities of the Board of Directors in the areas of, among other things, the completeness of financial reporting, our financial strategy, tax planning, including:

(i) functioning of control and internal risk management systems;

(ii) provision of financial information (including choice of the accounting policy, application of new rules and evaluation of their impact on our performance, interaction with internal and external auditors, etc.);

(iii) monitoring the compliance of our activities with the recommendations of internal and external auditors;

(iv) interaction with external auditors, including control of the auditor's independence, their remuneration and provision of any services outside the audit scope;

(v) our tax planning policy;

(vi) sources of our funding;

(vii) review of the annual budget and capital investments of the Group.

At least one of the committee members must be a financial expert as defined in the Dutch Corporate Governance Code, and all committee members must be financially literate. Our Audit Committee satisfies these requirements.

The document describing Terms of Reference Governing the Audit Committee is available on our website http://ovostar.ua/en/ipo/rules/.

Mr. van Campen is the Chairman of the Audit Committee and Mr. Karpenko is the second independent member of the Audit Committee since June 2015.

Meetings with Stakeholders

Meetings of Shareholders (the "General Meeting")

We, as a Dutch legal entity, must hold at least one annual General Meeting, to be held in the Netherlands and not later than six (6) months after the end of the financial year. The annual General Meeting is, among other things, entitled to discuss the annual report of the Board with respect to the general state of affairs in the company, approve the financial statements for the previous financial year, vote whether to grant discharge to members of the company's corporate bodies, and/or appoint members to fill any vacancies on any of the corporate bodies.

Notices of shareholders' meetings must be published on the company's website and via any other electronic communication method in accordance with applicable regulations in Poland, at least forty two (42) days before the day of the meeting.

The Board of Directors determines the items on the agenda for the General Meeting. Furthermore, the agenda shall contain such items as requested in writing by one or more persons entitled to attend the general meeting, representing solely or jointly at least 1% of the issued capital or holding shares of the company which according to the official price list of the regulated market represent a value of at least EUR 50,000,000 at least sixty days (60) before the date of the meeting. The meeting shall not adopt resolutions on matters other than those that have been placed on the agenda.

An extraordinary General Meeting may be convened as often as the Board of Directors or shareholders together representing at least 10% of the issued capital deem necessary.

Voting at the General Meeting | Shareholders may participate in the General Meeting and exercise their voting right personally or by written proxy. Each share in the capital of the company confers the right to cast one vote, subject to the relevant provisions of the Articles of Association. Every holder of shares and every other party entitled to attend the General Meeting who derives his/her rights from such shares, is only entitled to attend the General Meeting in person, or represented by a person holding a written proxy, to address the General Meeting and, in as far as he/she has voting rights, to vote at the meeting, if he/she has lodged documentary evidence of his/her voting rights. The requirement of a written proxy is also met if the proxy is recorded electronically. For this purpose, Dutch law prescribes a mandatory record date to establish which shareholders are entitled to attend and vote at the General Meeting.

Such record date is fixed at the twenty eighth (28th) day before said General Meeting. The voting rights and the right to attend the General Meeting shall accrue to those holding such entitlements and are registered as such in a register designated for that purpose by the Board of Directors on this record date. The convocation to the General Meeting shall state the record date, the place where and the manner in which registration shall take place.

The Chairman of the General Meeting shall further decide whether persons other than those who are entitled to admittance pursuant to the aforementioned shall be admitted to the Meeting.

The Members of the Board of Directors shall have the right to attend the General Meeting. In these Meetings they shall have an advisory vote. Unless provided otherwise in the Articles of Association or the law, all resolutions are adopted by absolute majority of votes. The company must record the voting results for each resolution adopted at a shareholders' meeting. These results must be posted on the company's website not later than on the fifteenth (15th) day following the day of the shareholders' meeting and should be available on the website for at least one year.

We conducted one General Meeting of shareholders on 17 June 2016 in Amsterdam, the Netherlands. During that meeting the 2015 annual accounts have been adopted, the Board has been authorized to appoint the external auditor for the 2016 annual accounts, and a number of other standard items have been discussed and approved.

Amendment of the Articles of Association | The General Meeting can resolve to amend the Articles of Association upon the proposal of the Board of Directors. Such resolution is to be taken by an absolute majority of votes cast. If a proposal to amend the Articles of Association is to be submitted to the General Meeting, the convening notice must state this fact. At the same time, if the proposal is for an amendment to the Articles of Association, a copy of the motion containing a verbatim text of the proposed amendment must be deposited at the company's office for inspection by the shareholders and depositary receipt holders until the meeting is adjourned.

Issuance of Shares | The company may only issue shares pursuant to a resolution of the General Meeting or of another corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding five (5) years. Such designation must specify the maximum number of shares that may be issued pursuant to the designation. The designation may each time be extended for a further period of up to five (5) years. The designation may not be revoked, unless the designation provides otherwise.

Pre-emptive Rights | Each shareholder has a pre-emptive right in respect of all share issuances or grants of the right to acquire shares, in proportion to the number of shares held by such holder. Shareholders, however, have no pre-emptive right in respect of the issuance of shares, or the grant of the right to acquire shares, which are issued or granted for a consideration other than cash, to employees of the company or of a group company of the company, or in respect of the issuance of shares to any person who exercises a previously existing right to subscribe for shares. Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting. Pre-emptive rights may also be excluded or restricted by the corporate body to which the power to exclude or restrict pre-emptive rights has been granted by a resolution of the General Meeting for a fixed period not exceeding five (5) years.

On 17 June 2016, by a resolution of the General Meeting the Board was designated to issue shares and to limit or exclude any pre-emptive rights in connection with such share issue for a period of 5 (five) years.

Board of Directors meetings

In 2016 the Board of Directors held five (5) meetings.

8 April 2016 | The first meeting was convened on in Amsterdam, the Netherlands. During the meeting the Board of Directors approved the 2015 annual report of Ovostar Union N.V.

12 May 2016 | The second meeting was held on 12 May 2016 in Kyiv, Ukraine. During the meeting the Board has approved the financial statements of Ovostar Union N.V. for the first quarter of 2016.

17 June 2016 | The third meeting was held on in Amsterdam, the Netherlands. During the meeting the Board has authorized the Management of Ovostar Union N.V. to hold a tender for an external auditor for financial year of 2016.

29 August 2016 | The fourth meeting was held on in Kyiv, Ukraine. During the meeting the Board approved the 2016 semi-annual report of Ovostar Union N.V. and appointed the external auditor for financial year of 2016.

11 November 2016 | The fifth meeting was held in Amsterdam, the Netherlands. The Board of Directors has approved the financial statements of Ovostar Union N.V. for the nine months of 2016 and discussed the outlook for the year 2017.

Audit committee meetings

In 2016 the Audit Committee of Ovostar Union N.V. held three (3) meetings.

07 April 2016 | During the meeting the Audit Committee together with Baker Tilly Berk, the auditor for the year of 2015, reviewed the auditing process for the year of 2015 and discussed the Group's Annual Report for 2015.

10 August 2016 | Agenda of this meeting included discussion on 2016 audit process and the Audit Committee proposed to approve Baker Tilly Berk as the auditor for the year 2016. Additionally, the operational management updated the Audit Committee on Ovostar Union's plans for development in the following 2-3 years and outlook for the second half of the year.

11 November 2016 | During the meeting the Audit Committee discussed potential risks for the business and their possible impact on the Group's operations and results in the year of 2016.

Corporate governance and control

Being a Dutch holding company listed on the Warsaw Stock Exchange, we have to comply with both of the applicable best practice provisions of the Dutch Corporate Governance Code (the “Code”) and the requirements of the Code of Best Practice for WSE Listed Companies (the “Rules” and together referred to as the “Codes”).

Dutch Corporate Governance Code

The Code includes the principles and describes the best practices for boards of directors, supervisory boards and general meetings of shareholders, financial statements, auditors, standards compliance and procedures of information disclosure. Dutch companies listed on the stock markets are obligated, under Dutch law, to publish an annual report, regardless of whether they comply with the Code fully, partially, or do not comply at all. If a company does not comply with the conditions of the Code or does not meet the requirements and conditions described in the Code, it shall specify the reasons for non-use and/or inconsistencies in the annual report. Please refer to section “Deviations from the Dutch Corporate Governance Code” below for more information on the Group’s compliance with the Code.

WSE Corporate Governance Rules

Companies listed on the Warsaw Stock Exchange are guided by the Rules. In 2016 the Best Practice for GPW Listed Companies was updated according to the European Commission Recommendation of 09 April 2014 on the quality of corporate governance reporting. As the rules of the updated Code became stricter, the non-compliance items are described in the section “Deviations from the WSE Corporate Governance Code” below.

Deviations from the Dutch Corporate Governance Code

The Codes are similar in their requirements and we meet most of the applicable principles and requirements of both. In case of non-compliance to certain requirements of the Codes, we undertake to publish the non-compliance items stating the reasons for existing discrepancies.

Currently, we do not comply with the following requirements of the Code:

Best Practice Provision III | Since we have a one-tier governance structure the functions attributed to supervisory board members in a two-tier governance structure are distributed among the non-executive directors of the Group.

Best Practice Provision III.5 | Since we have a one-tier governance structure and only two non-executive directors, we are not obliged to have separate committees for audit, remuneration and appointment. Currently, we have established the Audit Committee. No remuneration committee nor appointment committee have been installed.

Best Practice Provision III.8.4 | Under this requirement, most of the Board of Directors members shall be independent non-executive directors. We partially comply with this requirement meaning that three out of four of our directors are non-executive, but only two are independent. Mr. van Campen and Mr. Karpenko are the independent non-executive directors, while Mr. Veresenko is a dependent non-executive director. The Board of Directors has decided not to overcome this non-compliance by increasing the number of Board members, as it may directly affect the efficiency and speed of decision making by the Board.

Deviations from the WSE Corporate Governance Rules

Due to amendments to the Code of Best Practice for WSE listed companies enforced in 2016, currently we do not comply with the following requirements of the Code:

Best Practice Principle I.Z.1 | Currently we have no audio or video recording of a general meeting published at the company's website as all the information related to the general meeting is available in writing at our website. Additionally, we have not published the internal rule of changing the company's auditor as the company strictly follows guidelines stated in the Directive 2014/56/EU the European Union that was adopted in April 2014 and enforced in June 2016.

Best Practice Principle II.Z.1 | Since we have a one-tier governance structure we have not published the chart describing the division of responsibilities among the Board of Directors because their areas of responsibility are provided in writing at the website.

Confirmations required by the Codes

The Board of Directors confirms that during 2016 no conflicts of interest between the Directors and the Group occurred. In case of a conflict of interest, the Board would have acted in accordance with the Best Practice Provisions II.3.2, II.3.3 and III.6.1 to III.6.3 of the Dutch Corporate Governance Code.

The Board of Directors confirms that during 2016 no conflicts of interest between the Group and the shareholders owning more than 10% equity share in the Group occurred. In case of such a situation, the Board would have acted in accordance with the Best Practice Provision III.6.4 of the Dutch Corporate Governance Code.

Other items of non-compliance

The Board of Directors hereby confirms that currently its composition is not balanced within the meaning of the Simplification and Flexibilisation Act for the Dutch companies—the Flex BV Act. Such principle was also added to the WSE Corporate Governance Code and requires the companies to publish the diversity policy or explanation on its absence at the website. At the date of publication of this report the Board (4 persons) consisted of 100% male members. At the same time, 2 out of 5 key management personnel are female. The personnel are selected according to their professional qualifications, therefore, the Group deems such composition as healthy.

3 Financial Statements

Statement of Directors' responsibilities

Statement of the Board of Directors on compliance of the annual financial statements

With this statement the Board of Directors of Ovostar Union N.V. confirms that, as far as their knowledge, the financial statements of the Group and its subsidiaries for the year ended 31 December 2016 have been prepared in accordance with all applicable accounting standards, and they truly and fairly reflect the data on the assets, liabilities, financial position and results of the Group and its subsidiaries, and the report of the Board of Directors for the year ended 31 December 2016 truly and fairly reflects the position of the Group and its subsidiaries as of 31 December 2016 and includes a description of the key events and results and the key risks faced by the Group and its subsidiaries during the year 2016.

Statement of the Board of Directors on the appointment of an independent auditor to conduct audit of the consolidated annual financial statements

With this statement the Board of Directors of Ovostar Union N.V. confirms that Baker Tilly Berk N.V., acting as the independent auditor of the Group's consolidated financial statements for the year ended 31 December 2016, was appointed in accordance with the legal requirements and that the auditing company and the person conducting the audit meet all the legal requirements for issuing an objective and independent auditor's opinion.

Statement of the Board of Directors on the internal control system

The Board of Directors assessed the effectiveness of the internal control system at the end of 2016. During the investigation on which the assessment was based, no shortcomings were identified that might possibly have a material impact on the operational results or financial reporting of the Group. Based on the assessment results the Board members have come to a decision that the internal control system of the Group provides a reasonable degree of certainty that it is functioning well. It should be noted, however, that the system of internal control cannot provide a full certainty as regards the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

12 April 2017
Amsterdam, the Netherlands

[signed]
Borys Bielikov
Chief Executive Officer, Executive Director

[signed]
Vitalii Veresenko
Chairman of the Board, Non-executive Director

[signed]
Marc Van Campen
Head of Audit Committee, Non-executive Director

[signed]
Sergii Karpenko
Non-executive Director

Consolidated Financial Statements of Ovostar Union N.V.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(in USD thousand, unless otherwise stated)

	Note	For year 2016	For year 2015
Revenue	**8**	**77 740**	**75 606**
Changes in fair value of biological assets	17	647	2 410
Cost of sales	9	(52 290)	(45 601)
Gross profit		**26 097**	**32 415**
Other operating income	12	1 202	4 803
Selling and distribution costs	10	(4 162)	(2 588)
Administrative expenses	11	(1 230)	(1 237)
Other operating expenses	13	(269)	(1 010)
Operating profit		**21 638**	**32 383**
Finance costs	14	(1 095)	(1 236)
Finance income	15	2 165	1 505
Profit before tax		**22 708**	**32 652**
Income tax expense	16	(175)	(708)
Profit for the year		**22 533**	**31 944**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		(12 636)	(38 502)
Other comprehensive income for the year, net of tax		(12 636)	**(38 502)**
Total comprehensive income for the year, net of tax		9 897	**(6 558)**
Profit for the period attributable to:			
Equity holders of the parent company		22 153	30 954
Non-controlling interests		380	990
Total profit for the year		**22 533**	**31 944**
Other comprehensive income attributable to:			
Equity holders of the parent company		(12 331)	(37 615)
Non-controlling interests		(305)	(887)
Total other comprehensive income		**(12 636)**	**(38 502)**
Total comprehensive income attributable to:			
Equity holders of the parent company		9 822	(6 661)
Non-controlling interests		75	103
Total comprehensive income		**9 897**	**(6 558)**
Earnings per share:			
Weighted average number of shares		6 000 000	6 000 000
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent (USD per share)		3.69	5.16

Notes on pages 42-89 form an integral part of these consolidated financial statements

Consolidated Statement of Financial Position

For the year ended 31 December 2016
(in USD thousand, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Biological assets	17	28 500	26 041
Property, plant and equipment and intangible assets	18	35 512	33 370
Deferred tax assets	16	46	145
Other non-current assets	19	958	-
Total non-current assets		**65 016**	**59 556**
Current assets			
Inventories	20	9 123	10 990
Biological assets	17	10 679	8 409
Trade and other receivables	21	12 244	10 355
Prepayments to suppliers		757	420
Prepayments for income tax		6	26
Cash and cash equivalents	22	12 178	10 962
Total current assets		**44 987**	**41 162**
Total assets		**110 003**	**100 718**
Equity and liabilities			
Equity			
Issued capital	23	63	65
Share premium		30 933	30 933
Foreign currency translation reserve		(127 993)	(115 664)
Retained earnings		160 737	129 783
Result for the year		22 153	30 954
Equity attributable to equity holders of the parent		**85 893**	**76 071**
Non-controlling interests	7	2 511	2 436
Total equity		**88 404**	**78 507**
Non-current liabilities			
Interest-bearing loans and other financial liabilities	24	11 445	13 398
Deferred tax liability	16	782	850
Total non-current liabilities		**12 227**	**14 248**
Current liabilities			
Trade and other payables	25	5 008	4 184
Advances received		534	145
Interest-bearing loans and other financial liabilities	24	3 830	3 634
Total current liabilities		**9 372**	**7 963**
Total liabilities		**21 599**	**22 211**
Total equity and liabilities		**110 003**	**100 718**

Notes on pages 42-89 form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(in USD thousand, unless otherwise stated)

	Attributable to equity holders of the parent company							
	Issued capital	Share premium	Foreign currency translation re-	Retained earnings	Result for the year	Total	Non-controlling interests	Total equity
As at 31 December 2014	**73**	**30 933**	**(78 057)**	**104 444**	**25 339**	**82 732**	**2 333**	**85 065**
Profit for the year	-	-	-	-	30 954	30 954	990	31 944
Other comprehensive income	-	-	(37 615)	-	-	(37 615)	(887)	(38 502)
Total comprehensive income	**-**	**-**	**(37 615)**	**-**	**30 954**	**(6 661)**	**103**	**(6 558)**
Allocation of prior year result	-	-	-	25 339	(25 339)	-	-	-
Exchange differences	(8)	-	8	-	-	-	-	-
As at 31 December 2015	**65**	**30 933**	**(115 664)**	**129 783**	**30 954**	**76 071**	**2 436**	**78 507**
Profit for the year	-	-	-	-	22 153	22 153	380	22 533
Other comprehensive income	-	-	(12 331)	-	-	(12 331)	(305)	(12 636)
Total comprehensive income	**-**	**-**	**(12 331)**	**-**	**22 153**	**9 822**	**75**	**9 897**
Allocation of prior year result	-	-	-	30 954	(30 954)	-	-	-
Exchange differences	(2)	-	2	-	-	-	-	-
As at 31 December 2016	**63**	**30 933**	**(127 993)**	**160 737**	**22 153**	**85 893**	**2 511**	**88 404**

Notes on pages 42-89 form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(in USD thousand, unless otherwise stated)

	Note	For year 2016	For year 2015
Operating activities			
Profit before tax		22 708	32 652
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment and amortisation of intangible assets	9, 10, 11	2 492	2 427
Net change in fair value of biological assets	17	(647)	(2 410)
Disposal of property, plant and equipment		-	28
Disposal of biological assets		1 003	1 734
Finance income		(2 164)	(1 505)
Finance costs		1 095	1 236
Recovery of assets previously written-off	12	(223)	(237)
Income from special VAT treatment	12	(908)	(4 514)
Impairment of doubtful accounts receivable and prepayments to suppliers	13	69	292
VAT written off	13	153	627
Working capital adjustments:			
Increase in trade and other receivables		(3 819)	(2 804)
(Increase)/Decrease in prepayments to suppliers		(424)	129
Decrease/(Increase) in inventories		472	(5 399)
Decrease in trade and other payables and advances received		3 788	3 827
		23 595	**26 082**
Income tax paid		(5)	(31)
Net cash flows from operating activities		**23 590**	**26 051**
Investing activities			
Purchase of property, plant and equipment		(6 444)	(4 797)
Increase in biological assets	17	(9 714)	(10 356)
Interest-free loans issues	19	(958)	-
Net cash flows used in investing activities		**(17 116)**	**(15 153)**
Financing activities			
Proceeds from borrowings		-	2 505
Repayment of borrowings		(3 937)	(3 778)
Interest received		898	345
Interest paid		(1 095)	(452)
Net cash flows used in financing activities		**(4 134)**	**(1 380)**
Net (decrease)/increase in cash and cash equivalents		**2 340**	**9 518**
Effect from translation into presentation currency		(1 124)	(1 027)
Cash and cash equivalents at 1 January		**10 962**	**2 471**
Cash and cash equivalents at 31 December		**12 178**	**10 962**

For translating results and financial position into a presentation currency, the Group applies IAS 21 "The Effects of Changes in Foreign Exchange Rates". Procedures and rules applied by the Group are specified in Note 2.3.

Notes on pages 42-89 form an integral part of these consolidated financial statements

(in USD thousand, unless otherwise stated)

1. Corporate information

Ovostar Union N.V. (referred to herein as the "Company"), a limited liability company registered under the laws of the Netherlands, was incorporated on 22 March 2011 in Amsterdam. Ovostar Union N.V. was formed to serve as the ultimate holding company of LLC "Ovostar Union" and its subsidiaries. Hereinafter, LLC "Ovostar Union" and its subsidiaries are referred to as the "Ovostar Union Group" or the "Group". The registered office and principal place of business of the Company is Jan van Goyenkade 8, 1075 HP Amsterdam.

Principal activities of the Group include egg production, distribution, egg products manufacturing and production of sunflower oil, rapeseed oil and related products The largest shareholder is Prime One Capital Ltd., Cyprus. Its principal activity is the holding of ownership interests in its subsidiary and strategic management.

The Group operates through a number of subsidiaries in Ukraine and British Virgin Islands (the list of the subsidiaries is disclosed in Note 7) and has a concentration of its business in Ukraine, where its production facilities are located. Subsidiary companies are registered under the laws of Ukraine and British Virgin Islands. The registered office and principal place of business of the subsidiary companies in Ukraine is 34 Petropavlivska Street, Kyiv, Ukraine.

Information on other related party relationships of the Group is provided in Note 26.

Total number of employees were presented as follows:

	31 December 2016	31 December 2015
Production personnel	1 138	1 095
Administrative personnel	165	149
Other personnel	23	22
Total	1 326	1 266

The company is listed on Warsaw Stock Exchange.

The Group is controlled by the Beneficial Owners – Mr. Borys Bielikov and Mr. Vitalii Veresenko (hereinafter, the "Beneficial Owners")

The consolidated financial statements for the year ended 31 December 2016 were authorized by the Board of Directors on 12 April 2017.

2. Basis of preparation

2.1. Statement of compliance and basis of measurement

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU" hereinafter).

The companies of the Group maintain their accounting records under Ukrainian Accounting Standards ("UAS" hereinafter). UAS principles and procedures may differ from those generally accepted under IFRS EU. 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 EU.

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items	Measurement bases
Biological assets	*Fair value less costs to sell*

Details of the Group accounting policies are included in Note 5.

2.2. Going concern basis

The financial statements are prepared on a going concern basis, under which assets are sold and liabilities are repaid in the ordinary course of business. The accompanying consolidated financial statements do not include adjustments that would need to be made in case if the Group was unable to continue as a going concern.

2.3. Functional and presentation currency

The functional currency of the Company is U.S. dollar (USD). The consolidated financial statements are presented in the company's functional currency, that is, U.S. dollar (USD). The operating subsidiary have Ukrainian hryvnia (UAH) as their functional currency. All values are rounded to the nearest thousands, except when otherwise is indicated.

The USD has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in agricultural; and (c) the USD is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The Group translates its results and financial position into the presentation currency as the follows:

- assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income or separate income statement presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

During 2016 and 2015, the exchange rate had significant fluctuations. Consistent with IAS 21, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. Considering significant depreciation of Ukrainian currency against major foreign currencies and seasonality of sales, Management of the Group decided to translate income and expense items at average quarterly rates. On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the reporting date.

(in USD thousand, unless otherwise stated)

Income and expense items are translated at the average quarterly rates, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in "Other comprehensive income" and accumulated in the "Foreign currency translation reserve".

Relevant exchange rates are presented as follows:

	Closing rate as at 31 December 2016	Closing rate as at 31 December 2015
USD/UAH	27.1909	24.0007
EUR/UAH	28.4226	26.2231
PLN/USD	4.1975	3.9148
EUR/USD	0.9510	0.9169

	Average rate for the 1-st quarter 2016	Average rate for the 2-nd quarter 2016	Average rate for the 3-rd quarter 2016	Average rate for the 4-th quarter 2016
USD/UAH	25.6537	25.2618	25.3760	25.8896
EUR/UAH	28.2764	28.5535	28.3463	27.9580
PLN/USD	3.9594	3.8747	3.8938	4.0657
EUR/USD	0.9069	0.8857	0.8964	0.9273

	Average rate for the 1-st quarter 2015	Average rate for the 2-nd quarter 2015	Average rate for the 3-rd quarter 2015	Average rate for the 4-th quarter 2015
USD/UAH	21.1157	21.6115	21.7219	22.8491
EUR/UAH	23.7893	23.8709	24.1325	25.0161
PLN/USD	5.6802	5.8454	5.7639	5.8684
EUR/USD	0.8874	0.9047	0.8992	0.9135

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee

- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. Use of estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, due to uncertainty about these estimates, actual results recorded in future periods may differ from such estimates.

These consolidated financial statements include management's estimates regarding the value of assets, liabilities, revenues, expenses, and recognized contractual obligations. These estimates mainly include:

4.1. Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets" the Group reviews the carrying amount of non-current tangible assets (mainly property, plant and equipment) to identify signs of impairment of these assets.

If there is an indication that an asset may be impaired, the Group uses a model of strategic planning in order to calculate the discounted cash flows (using the "value in use" method, as defined in IAS 36) and, thus, assess the recoverability of the carrying amount of property, plant and equipment. The model was based on budgets and forecasts approved by the management for the next 5 years.

Expected future cash flows reflect long-term production plans formed on the basis of past experience and market expectations. The plans take into account all relevant characteristics of poultry farming, including egg production, volume of egg processing, prices for main components of mixed fodder. Thus, the production capacity is the basis for forecasting the future production volume for each subsequent year and related production costs.

Levels of costs included in projected cash flows are based on current long-term production plans. When conducting impairment testing, recent levels of costs are taken into account, as well as the expected cost changes based on the current condition of operating activities and in accordance with the requirements of IAS 36. IAS 36 provides a number of restrictions on future cash flows, which may be recognized in respect of future restructuring and capital modernization expenses.

Below are the key assumptions that formed the basis for forecasting future cash flows in the models:

- prices for main components of mixed fodder are based on internal forecasts of the Group's management;
- production data (production of eggs, safety of livestock, meat production volume, production of egg products) based on internal forecasts of the Group's management from past experience;
- selling prices for eggs, egg products and poultry meat are based on forecasts of the Group's management and market expectations.

Management believes that calculations of the recoverable amount are most sensitive to changes in such assumptions as the price of poultry meat, price of eggs and eggs product, price of poultry fodder and production data. Management believes that any reasonably possible change in key assumptions on which the recoverable amount of the Group is based will not cause the excess of carrying amount of the Group over its recoverable amount.

Application of IAS 36 requires extensive judgments by the management regarding estimates and assumptions related to future cash flows and discount rate. Given the nature of the current global economic environment, such assumptions and estimates have a high degree of uncertainty. Therefore, other similar assumptions may lead to significantly different results.

4.2. Fair value of biological assets

Estimation of fair value of biological assets is based on the discounted cash flow model. The fair value of biological assets might be affected by the fact that the actual future cash flows will differ from the current forecast, which typically occurs as a result of significant changes in any factors or assumptions used in the calculations. Among such factors are:

- differences between actual prices and price assumptions used in estimating net realizable value of eggs;
- changes in productivity of laying hens;
- unforeseen operational problems inherent in the branch specificity;
- age of hens at the end of the reporting period;
- changes in production costs, costs of processing and products sales, discount and inflation rates and exchange rates that could adversely affect the fair value of biological assets.

The key assumptions concerning biological assets based on discounted cash flow approach are presented as follows:

- cost planning at each stage of poultry farming will remain constant in future periods;
- egg production volume will not be significantly changed;
- egg sale price in future periods;
- long-term inflation rate of Ukrainian UAH in future periods;
- discount rate for determining the present value of future cash flows expected from the biological assets (Note 17).

Management determined that calculations of the fair value of biological assets are the most sensitive to changes in such assumptions as the volume of egg production, cost planning and prices of eggs, eggs product and poultry meat. Management believes that any reasonably possible change in key assumptions will not cause any significant change in the fair value of biological assets.

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.

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.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in Notes 17, 29.

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.

4.3. Allowances for doubtful debts

The Group forms allowances for doubtful debts to cover any potential losses arising in case of buyer's insolvency. In assessing the adequacy of the allowance for doubtful debts the management takes into account overall current economy conditions, terms of balances for outstanding receivables, the Group's experience to write-off liabilities, customers' solvency and changes in conditions of payment.

Changes in the economy, industry or financial position of individual buyers may cause adjustment to the amount of allowance for doubtful debts reflected in the consolidated financial statements.

4.4. Useful lives of property, plant and equipment

The Group estimates useful lives of property, plant and equipment at least at the end of each financial year and, if expectations differ from previous estimates, changes are recorded as changes in accounting estimates in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates can have a significant impact on the carrying amount of property, plant and equipment and depreciation expenses during the period.

4.5. Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that the inflow of taxable profit is possible, at the expense of which these losses may be implemented. Significant judgments are required from the management in determining the amount of deferred tax assets that can be recognized on the basis of the possible terms of receipt and the level of future taxable profit together with the future tax planning strategy.

5. Summary of significant accounting policies

5.1. Recognition and measurement of financial instruments

Financial assets and financial liabilities are recorded in the Group's consolidated statement of financial position when the Group becomes a contractual party regarding the corresponding financial instrument. The Group records the acquisition and sale of financial assets and financial liabilities at the settlement date.

Financial assets and financial liabilities are initially measured 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.

Fair value of investments that are actively traded in organized financial markets is calculated on the basis of current market value at the close of trading on the reporting date. Regarding investments in securities for which there is no active market, fair value is calculated using other methods of valuation of financial instruments. Such valuation methods include the use of information on recent market transactions between well informed, willing to commit such transaction, independent parties, or data about the current market value of another similar instrument, discounted cash flow analysis or other pricing models.

Accounting policy for subsequent revaluation of these items is disclosed below in the appropriate sections of accounting policy.

5.2. Financial assets

Initial recognition and measurement

Financial assets are recognised initially at transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset

5.3. Effective interest rate method

The effective interest rate method is used to calculate the amortized cost of a financial asset and distribute interest income during the relevant period. The effective interest rate is the rate that enables discounting of estimated future cash receipts through the expected life of a financial asset or a shorter period, if applicable.

Revenues relating to debt instruments are recorded using the effective interest rate method, except for financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss - a financial asset is classified as at fair value through profit or loss if it is held for trading or designated at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is:

- purchased originally for the purpose of sale / repayment within a short period of time; or
- a part of the portfolio of identified financial instruments that are managed together, and structure of which demonstrates the intention of profit earning in the short term; or
- a derivative that is not classified as a hedging instrument and is not effective for these purposes.

A financial asset that is not a financial asset held-for-trading may be classified as a financial asset at fair value through profit or loss at the time of recognition in the accounting records if:

- application of such classification eliminates or significantly reduces discrepancies in valuation or accounting, that otherwise might arise, or
- a financial asset is a part of a group of financial assets, financial liabilities or both groups, which are managed and controlled on the basis of fair value in accordance with a documented risk or investment management strategy, and information about this group is provided internally on that basis, or
- it exists in the framework of the contract containing one or more embedded derivatives, and IAS 39 “Financial Instruments: Recognition and Measurement” permits to classify the whole contract (asset or liability) as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value with arising gains or losses recognized in the consolidated statement of comprehensive income. Net gains or losses recognized in the income statement include dividends and interest received on the relevant financial asset.

Held-to-maturity investments - investments held to maturity are measured at amortized cost using the effective interest rate method, less impairment, and income is recognized using the effective yield method. During the reporting periods presented in these financial statements, the Group had no investments of this category.

Loans and receivables - accounts receivable regarding principal activities, loans, borrowings and other receivables with fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest rate method less impairment and uncollectible debts. Interest income is recognized by applying the effective interest rate, except for short-term receivables for which the amount of such interest income is insignificant.

Unquoted investments available for sale are accounted for at cost if their fair value cannot be reliably measured.

5.4. Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in bank accounts and deposits with an original maturity date of three months or less and are stated at fair value.

5.5. Cash deposits

Cash deposits in the statement of financial position are held for the investment activities. For the purpose of the consolidated statement of cash flows, short-term deposits are included in the investing activities.

5.6. Impairment of financial assets

Financial assets, except for financial assets at fair value through profit or loss, at each reporting date are assessed for signs indicating impairment. Impairment loss is recognized when there is objective evidence of reduction of the estimated future cash flows on this asset as a result of one or more events that occurred after the financial asset was recorded in the accounting. For financial assets at amortized cost, the amount of impairment is calculated as the difference between the asset's carrying amount and present value of the expected future cash flows discounted using the effective interest rate.

Impairment loss directly reduces the carrying amount of all financial assets, except for accounts receivable on principal activities, carrying amount of which is reduced due to the allowance formed. If the accounts receivable on principal activities are uncollectible, they are written-off against the related allowance. Subsequently received reimbursements of amounts previously written-off are recorded in credit of the allowance account. Changes in the carrying amount of the allowance account are recorded in the profit and loss.

Except for equity instruments available for sale, if in a subsequent period the amount of impairment loss decreases and such decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss previously recognized is recovered by adjusting the items in the income statement. In this case, the carrying amount of financial investments at the date of recovery of impairment cannot exceed its amortized cost, which would be reflected in the case, if impairment was not recognized.

In respect of equity securities available for sale, any increase in fair value after recognition of impairment loss relates directly to equity.

5.7. Writing-off of financial assets

The Group writes-off a financial asset only if rights for cash flows under the corresponding contract terminated the treaty or if a financial asset and corresponding risks and rewards are transferred to other organization. If the Group does not transfer or retain all the principal risks and rewards of ownership of the asset and continues to control the transferred asset, it shall record its share in the asset and related liability in the amount of possible payment of corresponding amounts. If the Group retains all the principal risks and rewards of ownership of the transferred financial asset, it shall continue to account for the financial asset, and reflect a secured loan on income earned.

5.8. Financial liabilities and equity instruments issued by the Group

5.8.1 Accounting as liabilities or equity

Debt and equity financial instruments are classified as liabilities or equity based on the substance of the corresponding contractual obligations.

5.8.2 Equity instruments

Equity instrument is any contract confirming the right for a share in the company's assets remaining after deduction of all its liabilities. Equity instruments issued by the Group are recorded in the amount of generated income net of direct expenses for their issue.

5.8.3 Liabilities under financial guarantee contracts

Liabilities under financial guarantee contracts are initially measured at fair value and subsequently recorded at the higher of:

- cost of contractual obligations determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, and
- cost, less, where applicable, accumulated depreciation reflected in accordance with the principles of revenue recognition set forth below.

5.8.4 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition as loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

A financial liability is classified as held for trading if it is:

- assumed mainly to be repurchased within a short period of time; or
- a part of the portfolio of identified financial instruments that are managed together, and structure of which demonstrates the intention of profit earning in the short term; or

- a derivative that is not classified as a hedging instrument and is not effective for these purposes.

A financial liability that is not a financial liability held-for-trading may be classified as a financial liability at fair value through profit or loss at the time of recognition in the accounting records if:

- application of such classification eliminates or significantly reduces discrepancies in valuation or accounting, that otherwise might arise, or
- a financial liability is a part of a group of financial assets, financial liabilities or both groups, which are managed and controlled on the basis of fair value in accordance with a documented risk or investment management strategy, and information about this group is provided internally on that basis, or
- it exists within the framework of the contract containing one or more embedded derivatives, and IAS 39 “Financial Instruments: Recognition and Measurement” permits to classify the whole contract (asset or liability) as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value with arising gains or losses recognized in the financial results. Net gains or losses recognized in the income statement include interest paid on a financial liability.

Other financial liabilities - other financial liabilities, including borrowings, are accounted for at fair value less transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method, with the recognition of interest expenses using the effective (actual) yield.

<u>5.8.5 Trade and other accounts payable</u>

Trade payables are recognized when the counterparty fulfills its contractual obligations and measured at amortized cost using the effective interest rate.

<u>5.8.6 Loans and borrowings</u>

Loans and borrowings are initially recognized at fair value less costs incurred in the transaction. Subsequently, loans and borrowings are stated at amortized cost; any difference between proceeds (net of transaction costs) and the amount of repayment is reflected in the income statement over the period for which loans and borrowings are issued using the effective interest rate method. Loans and borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the obligation to at least one year after the date of balance sheet preparation.

<u>5.8.7 Writing-off of financial liabilities</u>

The Group writes-off financial liabilities only when they are repaid, cancelled or expire.

5.9. Foreign currency transactions

Transactions in currencies other than the functional currency are initially recorded at exchange rates set on the dates of these transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates applicable at the reporting date. All realized and unrealized gains and losses resulting from exchange rate differences are included in profit or loss for the period.

5.10. Biological assets

Biological assets represented by the commercial herd and herd replacements are recorded at fair value less estimated selling and distribution expenses. Estimate of fair value of biological assets of the Group is based on discounted cash flow models, according to which the fair value of biological assets is calculated using present value of the expected net cash flows from biological assets discounted at the appropriate rate.

The Group recognizes a biological asset only where it controls an asset as a result of past events; it is probable that the economic benefits from the asset will flow to the Group; fair value or cost of an asset can be estimated with reasonable certainty.

Profit or loss arising on initial recognition of biological assets at fair value less estimated selling and distribution expenses is included in the consolidated income statement as incurred.

Agricultural products collected from a biological asset are measured at fair value less estimated selling and distribution expenses. Profit or loss arising on initial recognition of agricultural products at fair value, less estimated selling and distribution expenses, is recognized in the consolidated statement of comprehensive income.

5.11. Inventories

Inventories consist mainly of raw materials, package and packing materials, agricultural produce and finished goods. Inventories are valued at the lower of cost and net realisable value.

Cost of goods includes the cost of acquisition and, where appropriate, costs incurred in bringing inventories to their present condition and location. Cost is calculated using the weighted average method. Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect to the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

5.12. Property, plant and equipment

Property, plant and equipment are recorded at historical cost or deemed cost, equal to fair value at the date of transition to IFRS, less accumulated depreciation and accumulated impairment losses. Historical cost of an asset of property, plant and equipment includes (a) the purchase price, including non-recoverable import duties and taxes net of trade and other discounts; (b) any costs directly related to bringing an asset to the location and condition, which allow its functioning in accordance with the intentions of the Group's management; (c) initial assessment of the costs of dismantling and removal in the asset of property, plant and equipment and restoring the occupied territory; this obligation is assumed by the Company either upon the acquisition of an asset, or as a result of its operation for a certain period of time for the purposes not related to the production of inventories during this period. Cost of assets created in-house includes cost of materials, direct labor costs and an appropriate proportion of production overheads.

Construction in progress includes costs directly related to the construction of property, plant and equipment, including distribution of variable overheads associated with the construction and prepayments for the property, plant and equipment. Construction in progress is not depreciated. These assets are depreciated from the moment when they are used in economic activity, on the same basis as depreciation on other assets.

Subsequently capitalised 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 capitalisation are charged to the consolidated statement of comprehensive income as incurred.

Depreciable amount is the cost of an asset of property, plant and equipment, or any other amount, less its residual value. The residual value of an asset is the estimated amount that the company would receive to date from the sale of an item of property, plant and equipment, less estimated costs of disposal if the asset reached the age and condition, in which, presumably, it will be at the end of its useful life. Assets under finance lease are depreciated over the shorter of estimated useful life on the same basis as own assets or over the period of the relevant lease.

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

Buildings	10 - 40 years
Plant and equipment	5 - 25 years
Vehicles	3 - 10 years
Furniture and fittings	3 - 5 years
Construction in progress and uninstalled equipment	No depreciation

The residual value, useful life and depreciation method are reviewed at the end of each financial year. Impact of any changes arising from estimates made in prior periods is recorded as a change in an accounting estimate.

Gains or losses arising from disposal or liquidation of an asset of property, plant and equipment, are defined as the difference between sales proceeds and carrying amount of an asset and recognized in profit or loss.

5.13. Impairment of property, plant and equipment

At the end of each reporting period the Group identifies signs of possible impairment of assets. If any such indication exists, the Group reviews the carrying amount of its items of property, plant and equipment to determine whether any signs of impairment exist due to depreciation. If any such indication exists, the expected recoverable amount of an asset is estimated to determine the amount of impairment losses, if any.

In order to determine the impairment losses, assets are grouped at the lowest levels for which it is possible to identify separately the cash flows (cash generating unit).

The recoverable amount is the higher of fair value less selling and distribution expenses and value of an asset in use. In assessing the value of an asset in use, the estimated future cash flows associated with the asset, are discounted to their present value using pre-tax discount rate that reflects current market estimates of time value of money and the risks inherent in the asset.

If, according to the estimates, the recoverable amount of an asset (cash generating unit) is less than its carrying amount, the carrying amount of an asset (cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized immediately in the income statement, except when the asset is recorded at a revalued amount. In this case the impairment loss is considered as a revaluation decrease.

In cases where impairment losses are subsequently reversed, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of recovery amount, however, in such a way that the increased carrying amount does not exceed the carrying amount that would be determined, if an impairment loss was not recognized in respect of an asset (cash generating unit) in previous years. Reversal of impairment loss is recognized immediately in the income statement, except when the asset is recorded at a revalued amount. In this case, the reversal of an impairment loss is considered as a revaluation increase.

5.14. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Amortization is calculated on a straight line basis over the useful life of an asset, which is 10 years.

5.15. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

5.16. Leases

Leases are classified as finance leases when according to the terms of lease the lessee assumes all principal risks and rewards incident to ownership of the leased property. Other leases are classified as operating leases. Income and expenses associated with operating leases are accrued on a straight-line basis and recorded in the income statement over the lease term.

5.17. Group as a lessee

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

5.18. Group as a lessor

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same base as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

5.19. Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. Such liabilities are disclosed in the notes to the financial statements, except where the probability of outflow of resources embodying economic benefits is insignificant.

Contingent assets are not recognized in the financial statements, but disclosed in the notes to the extent that it is probable that the economic benefits will flow to the Group.

5.20. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount.

The amount recognized as a provision is the best estimate of compensation necessary to repay a current liability on the reporting date, which takes into account all the risks and uncertainties inherent in this liability. In cases where the amount of provision is estimated using cash flows that can be required to repay current liabilities, its carrying amount represents the present value of these cash flows.

Where there is a possibility that one or all of the economic benefits necessary to recover the amount of provision will be reimbursed by a third party, the receivables are recognized as an asset if there is actual assurance that such reimbursement will be received and the amount of receivables can be measured reliably.

5.21. Revenue recognition

Revenues from the sale of goods are recognized when the Group has transferred to the buyer all significant risks and rewards of ownership of the goods, and it is probable that the economic benefits associated with this transaction will flow to the Group.

Revenues from rendering of services are recognized in the reporting period in which the services were provided, based on the level of completion of the specific transaction and only when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with this transaction will flow to the Group.

Income and expenses relating to the same transaction or event are recognized simultaneously. Interest income is recognized using the effective interest rate method.

5.22. Income tax

Income tax is calculated in accordance with the requirements of the applicable legislation of Ukraine. Income tax is calculated on the basis of financial results for the year adjusted to items that are not included in taxable income or that cannot be attributed to gross expenses. It is calculated using tax rates effective at 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 financial statements and the corresponding tax base used to calculate taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recorded taking into account the degree of certainty in sufficient taxable income, which enables to realize temporary differences related to gross expenses.

Deferred tax is calculated at tax rates, which presumably will be applied during the sale of related assets or repayment of related liabilities.

Assets and liabilities on deferred income tax are offset when: a) the Group has a legally enforceable right to offset the recognized current income tax assets and liabilities; b) the Group intends either to perform settlement by offsetting counterclaims, or simultaneously sell the asset and settle the liability; c) deferred tax assets and liabilities relate to income taxes levied by the same taxation authority in each future period in which it is intended to repay or reimburse a significant amount of deferred tax liabilities and assets.

Deferred income tax is recognized in the income statement, except when it relates to items recognized directly in equity. In this case the deferred tax is also recognized in equity.

In 2016, Ukrainian corporate income tax was levied at a rate of 18% (2015: 18%)

Fixed agricultural tax: 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 16).

5.23. Value Added Tax

For the year ended 31 December 2016 and 2015, VAT was levied at two rates: 20% on Ukrainian domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Ukraine. In 2016 VAT rate remains at the same level.

VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to the customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in the reporting period. According to Ukrainian legislation, rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

5.24. Government grants

Government grants are stated at fair value when there is reasonable assurance that the grant will be received.

Ukrainian legislation provides a variety of tax benefits and subsidies for agricultural companies. Such benefits and subsidies are approved by the Supreme Council of Ukraine, the Ministry of Agrarian Policy, Ministry of Finance, local authorities. Under the applicable legislation, agricultural producers are entitled to use VAT benefit regarding agricultural transactions.

VAT refunds and other government grants

The Group's companies are subject to special tax treatment for VAT (Note 12). The Group's enterprises, 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 recognised 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 recognised 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 attached to them and that the grants will be received.

5.25. Partial compensation of interest rates on loans raised by the agricultural companies from financial institutions

The Group companies are entitled to compensation from the government of a share of interest expenses incurred on loans which were received for agricultural purposes. The amount of interest compensation depends on the term and purpose of the loan. Due to the fact that the payment of interest compensations depends on the capabilities of the country's budget, they are recognized on a cash basis as other operating income in the period of receipt.

5.26. Related party transactions

For the purposes of these consolidated financial statements, the parties are considered to be related if one of the parties has a possibility to control or considerably influence the operational and financial decisions of the other company. While considering any relation which can be defined as related party transactions it is necessary to take into consideration the substance of the transaction not only their legal form.

5.27. Reclassification

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.

6. New and amended standards

(a) New and amended standards and interpretations adopted

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS.

Annual improvements 2012-2014 Cycle

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

This improvement adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)

The amendment adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.

This improvement clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

IAS 19 Employee Benefits

This amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

IAS 34 Interim Financial Reporting

The amendment clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

These changes had no significant impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

(b) New and amended standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

Clarifications to IFRS 15 Revenue from contracts with customers effective for annual period beginning on or after 1 January 2018

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts effective for annual period beginning on or after 1 January 2018

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. The Group will implement IFRS 9 per 1 January 2018. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes and will be implemented by the Group per 1 January 2018. The Group has started the identification of the areas where IFRS 15 changes the current accounting policies. The impact of the standard will be further investigated in 2017.

IFRS 16 Leases

IFRS 16, published in January 2016, establishes a revised framework for determining whether a lease is recognised on the (Consolidated) Statement of Financial Position. It replaces existing guidance on leases, including IAS 17. The Group expects to implement IFRS 16 per 1 January 2019. In 2016, the Group has started to collect rental and lease contracts from the key operating companies. The Group is currently in the process of determining to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Ovostar Union will further analyse the lease contracts in 2017 to prepare an initial impact assessment.

(in USD thousand, unless otherwise stated)

7. Subsidiaries and Non-controlling interests

As at 31 December 2016 and 2015 the Group included the following subsidiaries:

Name of the company	Business activities	31 December 2016	31 December 2015
Limited Liability Company "Ovostar Union"	Strategic management of subsidiary companies in Ukraine	100.0%	100.0%
International Food Trade Limited	Trade company (British Virgin Islands)	100.0%	-
Limited Liability Company "Yasensvit"	Breeder farms, production of hatching eggs, farms for growing young laying flock and for laying flock, production and distribution of shell eggs, poultry feed production	98.0%	98.0%
Limited Liability Company "Ovostar"	Egg-products production and distribution	100.0%	100.0%
Public Joint Stock Company "Poultry Farm Ukraine"	Production of shell eggs, assets holding	92.0%	92.0%
Public Joint Stock Company "Malynove"	Production of shell eggs, assets holding	94.0%	94.0%
Public Joint Stock Company "Krushynskyy Poultry Complex"	Trading company, egg trading – non operational activity	76.0%	76.0%
Limited Liability Company "Skybynskyy Fodder Plant"	In the process of liquidation	98.6%	98.6%

The tables on the following page summarise the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group elimination:

(in USD thousand, unless otherwise stated)

As at 31 December 2016	LLC "Yasensvit"	PJSC "Poultry Farm Ukraine"	PJSC "Malynove"	PJSC "Krushynsky y Poultry Complex"	Intra-group elimina-tions	Total
NCI percentage	**2.0%**	**8.0%**	**6.0%**	**24.0%**		
Non-current assets	35 038	1 181	7 082	-		
Current assets	60 425	4 971	1 962	568		
Non-current liabilities	-	-	(203)	(3)		
Current liabilities	(6 439)	(472)	(6 475)	(8)		
Net assets	**89 024**	**5 680**	**2 366**	**557**		
Carrying amount of NCI	1 780	454	142	134	-	2 511
Revenue	72 896	7 463	4 080	-		
Profit (loss)	25 562	(1 523)	(151)	-		
OCI	(10 020)	(795)	(323)	(95)		
Total comprehensive income	15 542	(2 318)	(474)	(95)		
Profit allocated to NCI	511	(122)	(9)	-		380
OCI allocated to NCI	(200)	(64)	(19)	(23)		(306)
CF from operating activities	13 784	17	848	(1)		
CF from investment activities	(10 250)	(11)	(382)	-		
CF from financing activities (dividend to NCI: nil)	898	-	-	-		
Net (decrease)/ increase in cash and cash equivalents	4 432	6	466	(1)		

As at 31 December 2015	LLC "Yasensvit"	PJSC "Poultry Farm Ukraine"	PJSC "Malynove"	PJSC "Krushynsky y Poultry Complex"	Intra-group elimina-tions	Total
NCI percentage	**2.0%**	**8.0%**	**6.0%**	**24.0%**		
Non-current assets	27 595	5 431	5 777	-		
Current assets	49 650	2 879	500	642		
Non-current liabilities	-	(41)	(245)	(3)		
Current liabilities	(3 726)	(270)	(3 192)	9		
Net assets	**73 519**	**7 999**	**2 840**	**648**		
Carrying amount of NCI	1 470	640	170	156	-	2 436
Revenue	71 196	6 201	2 652	-		
Profit (loss)	30 449	5 262	(647)	(5)		
OCI	(26 267)	(2 178)	(1 761)	(341)		
Total comprehensive income	4 182	3 084	(2 408)	(346)		
Profit allocated to NCI	609	421	(39)	(1)		990
OCI allocated to NCI	(525)	(174)	(106)	(82)		(887)
CF from operating activities	11 091	1 150	3 889	1		
CF from investment activities	(7 684)	(1 159)	(3 817)	-		
CF from financing activities (dividend to NCI: nil)	-	-	-	-		
Net (decrease)/ increase in	2 868	(13)	32	1		

(in USD thousand, unless otherwise stated)

8. Segment information

All of the Group's operations are located within Ukraine.

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

Egg operations segment	• sales of egg • sales of chicken meat
Egg products operations segment	• sales of egg processing products
Oilseed operations segment	• sales of sunflower oil, rapeseed oil and related products

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 5. Sales between segments are mainly carried out at market prices. Operating profit before tax represents segment result. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments.
- All liabilities are allocated to reportable segments.

The following table presents revenue, results of operations and certain assets and liabilities information regarding segments for the year ended 31 December 2016 and 2015:

For the year ended 31 December 2016	Operations segment			Consolidated
	Egg	Egg products	Oilseed	
Revenue	99 280	23 531	3 143	125 954
Inter-segment revenue	(43 620)	(2 420)	(2 174)	(48 214)
Revenue from external buyers	**55 660**	**21 111**	**969**	**77 740**
Profit before tax	**15 253**	**7 455**	**-**	**22 708**

For the year ended 31 December 2015	Operations segment			Consolidated
	Egg	Egg products	Oilseed	
Revenue	94 354	23 001	3 427	120 782
Inter-segment revenue	(38 802)	(4 827)	(1 547)	(45 176)
Revenue from external buyers	**55 552**	**18 174**	**1 880**	**75 606**
Profit before tax	**28 408**	**4 244**	**-**	**32 652**

In 2016 and 2015 no sales were settled by barter transactions.

Segment assets, liabilities and other information regarding segments as at 31 December 2016 and 2015 were presented as follows:

Notes to the Consolidated Financial Statements
(in USD thousand, unless otherwise stated)

Segment assets, liabilities and other information regarding segments as at 31 December 2016 and 2015 were presented as follows:

As at 31 December 2016	Operations segment			Consolidated
	Egg	Egg products	Oilseed	
Total segment assets	**99 227**	**8 846**	**1 930**	**110 003**
Total segment liabilities	**20 613**	**986**	**-**	**21 599**
Addition to property, plant and equipment and intangible assets	8 436	507	-	8 943
Net change in fair value of biological assets and agricultural produce	466	181	-	647
Depreciation and amortization	(2 316)	(168)	(8)	(2 492)
Interest income	896	2	-	898
Interest on debts and borrowings	(1 095)	-	-	(1 095)
Income tax expense	(24)	(151)	-	(175)

As at 31 December 2015	Operations segment			Consolidated
	Egg	Egg products	Oilseed	
Total segment assets	**91 569**	**9 035**	**114**	**100 718**
Total segment liabilities	**20 965**	**1 245**	**1**	**22 211**
Addition to property, plant and equipment and intangible assets	9 483	237	52	9 772
Net change in fair value of biological assets and agricultural produce	1 718	692	-	2 410
Depreciation and amortization	(2 243)	(170)	(14)	(2 427)
Interest income	337	8	-	345
Interest on debts and borrowings	(1 160)	(23)	-	(1 183)
Income tax expense	(435)	(273)	-	(708)

The following table presents information about revenue from external buyers divided by geographic location for the year ended 31 December 2016 and 2015:

Revenue by regions	For year 2016	For year 2015
Ukraine	53 763	54 049
Middle East	18 949	19 161
European Union	4 856	1 362
CIS	141	239
Africa	1	436
Other	30	359
Total	**77 740**	**75 606**

Revenue for the year ended 31 December 2016 from two customer amounted to USD 11 108 thousand and USD 9 335 thousand (2015: USD 10 167 thousand and USD 9 413 thousand, respectively), arising from sales in the egg operations segment.

Notes on pages 42-89 form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements
(in USD thousand, unless otherwise stated)

9. Cost of sales

	For year 2016	For year 2015
Costs of inventories recognised as an expense	(41 430)	(35 245)
Packaging costs	(4 661)	(4 114)
Wages, salaries and social security costs	(3 064)	(3 015)
Amortisation, depreciation and impairment	(2 356)	(2 273)
Other expenses	(779)	(954)
Total	**(52 290)**	**(45 601)**

10. Selling and distribution costs

	For year 2016	For year 2015
Transportation expenses	(3 324)	(1 452)
Wages, salaries and social security costs	(370)	(256)
Cost of materials	(218)	(205)
Marketing and advertising expenses	(76)	(45)
Amortisation, depreciation and impairment	(15)	(11)
Other expenses	(159)	(619)
Total	**(4 162)**	**(2 588)**

In the reporting period transportation costs increased due to growth of expert sales of eggs and egg products.

11. Administrative expenses

	For year 2016	For year 2015
Wages, salaries and social security costs	(328)	(402)
Legal, audit and other professional fees	(248)	(249)
Service charge expenses	(318)	(253)
Cost of materials	(120)	(100)
Amortisation, depreciation and impairment	(121)	(143)
Other expenses	(95)	(90)
Total	**(1 230)**	**(1 237)**

12. Other operating income

	Note	For year 2016	For year 2015
Income from refund under the special legislation:			
Income from special VAT treatment	a)	908	4 514
Total income from refund under the special legislation		**908**	**4 514**
Gain on recovery of assets previously written off		223	237
Other income		71	52
Total		**1 202**	**4 803**

Recovery of assets previously written-off mainly represents amounts of inventory surplus identified in the reporting period during the stock-taking and recovery of amounts previously recognized as doubtful.

(in USD thousand, unless otherwise stated)

a) Income from special VAT treatment

According to the Tax Code of Ukraine, 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 products, net of VAT paid on purchases, for use in agricultural production. Producers of eggs, poultry and other agriculture producers shall retain VAT in a portion of 50%.

In accordance with the changes in the tax legislation of Ukraine, from 1 January 2017, specific VAT subsidies is canceled. From 1 January 2017, in order to continue state support for agricultural companies, tax legislation introduces budget subsidies. From 2017 onwards, budget subsidies will be provided until 1 January 2022. The agricultural producers will be engaged in the production of farm animals, 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.

In accordance with the Tax Code, the VAT rate is currently effective at 20%.

All members of the Group qualify for the use of VAT benefits except for Limited Liability Company "Ovostar", Open Joint Stock Company "Krushynskyy Poultry Complex", Limited Liability Company "Skybynskyy Fodder Plant", Limited Liability Company "Ovostar Union", Public Joint Stock Company "Malynove".

Included in VAT refunds for the years ended 31 December 2016, 2015 were specific VAT subsidies for the production and sale of eggs and egg products for further processing.

Reconciliation of VAT refunds for the year ended 31 December 2016, 2015 was presented as follows:

	For year 2016	For year 2015
As at 01 January	**-**	**1**
Received during the year	908	4 515
Released to the statement of comprehensive income	(908)	(4 514)
Exchange differences	-	(2)
As at 31 December	**-**	**-**
Current	-	-
Non-current	-	-

13. Other operating expenses

	For year 2016	For year 2015
VAT written-off	(153)	(627)
Impairment of doubtful accounts receivable and prepayments to suppliers	(69)	(292)
Fines and penalties	(25)	(29)
Other expenses	(22)	(62)
Total	**(269)**	**(1 010)**

(in USD thousand, unless otherwise stated)

14. Finance costs

	For year 2016	For year 2015
Interest on debts and borrowings	(1 094)	(1 172)
Interest on financial lease	(1)	(11)
Other financial expenses	-	(53)
Total	**(1 095)**	**(1 236)**

15. Finance income

	For year 2016	For year 2015
Foreign currency exchange gain	1 265	1 160
Interest income	900	345
Total	**2 165**	**1 505**

16. Income tax

Companies of the Group that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the applicable laws. The FAT is paid in lieu of corporate income tax, land tax, duties for geological survey works and duties for trade patents.

The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognized in the statement of comprehensive income in administrative expenses.

During the year ended 31 December 2016, the Group companies which have the status of the Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a 18% rate (31 December 2015: at a 18% rate). The deferred income tax assets and liabilities as of 31 December 2016 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The major components of income tax expense for year ended 31 December 2016 and 2015 were:

	For year 2016	For year 2015
Current income tax	(55)	(26)
Deferred tax	(120)	(682)
Income tax (expense)/benefit reported in the income statement	**(175)**	**(708)**

Notes on pages 42-89 form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements
(in USD thousand, unless otherwise stated)

Reconciliation between tax expense and the product of accounting profit multiplied by Ukraine's domestic tax rate for the years ended 31 December 2016 and 2015 was as follows:

	For year 2016	For year 2015
Accounting profit before income tax	**22 708**	**32 652**
At Ukraine's statutory income tax rate of 18% (2014: 18%)	4 087	5 877
Tax effect of:		
Income generated by FAT payers (exempt from income tax)	(4 636)	(6 343)
Current year losses for which no deferred tax asset was recognised at a rate of 25.0% [1]	99	46
Effect of expenses that are not deductible in determining taxable profit	534	1 055
Effect of translation to presentation currency	91	73
Income tax expense/(benefit)	**175**	**708**

[1] Current year losses for which no deferred tax asset was recognized relate to Ovostar Union N.V., the Dutch company. The income tax rate in the Netherlands is 25.0%.

Deferred tax

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

	As at 31 December 2016	Recognized in statement of comprehensive income	Effect of translation into presentation currency	As at 31 December 2015
Advances received and other payables	10	(25)	(3)	38
Prepayments to suppliers	8	(57)	(5)	70
Trade and other receivables	31	8	(3)	26
Inventories	1	(13)	(1)	15
Tax losses	227	-	(30)	257
Unrecognized deferred tax assets	(231)	1	29	(261)
Netted off against deferred tax assets	**46**	**(86)**	**(13)**	**145**
Property, plant and equipment and intangible assets	(770)	(37)	100	(833)
Advances received and other payables	(12)	3	2	(17)
Netted off against deferred tax liabilities	**(782)**	**(34)**	**102**	**(850)**
Net deferred tax asset/(liability)	**(736)**	**(120)**	**89**	**(705)**

(in USD thousand, unless otherwise stated)

	As at 31 December 2015	Recognized in statement of comprehensive income	Effect of translation into presentation currency	As at 31 December 2014
Advances received and other payables	38	39	(2)	1
Prepayments to suppliers	70	59	(10)	21
Trade and other receivables	26	4	(13)	35
Inventories	15	-	(7)	22
Tax losses	257	-	(134)	391
Unrecognized deferred tax assets	(261)	(174)	69	(156)
Netted off against deferred tax assets	**145**	**(72)**	**(97)**	**314**
Property, plant and equipment and intangible assets	(833)	(602)	164	(395)
Advances received and other payables	(17)	(8)	6	(15)
Netted off against deferred tax liabilities	**(850)**	**(610)**	**170**	**(410)**
Net deferred tax asset/(liability)	**(705)**	**(682)**	**73**	**(96)**

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 balance sheet as at 31 December 2016 and 2015:

	As at 31 December 2016	As at 31 December 2015
Non-current assets	46	145
Long term liabilities	(782)	(850)
Net deferred tax asset/(liability)	**(736)**	**(705)**

17. Biological assets

As at 31 December 2016 and 2015 commercial and replacement poultry were presented as follows:

	As at 31 December 2016		As at 31 December 2015	
	Number, thousand heads	Carrying value	Number, thousand heads	Carrying value
Non-current biological assets				
Replacement poultry				
Hy-line	4 365	28 500	3 947	26 041
Total non-current biological assets	**4 365**	**28 500**	**3 947**	**26 041**
Current biological assets				
Commercial poultry				
Hy-line	3 195	10 679	2 547	8 409
Total current biological assets	**3 195**	**10 679**	**2 547**	**8 409**
Total biological assets	**7 560**	**39 179**	**6 494**	**34 450**

(in USD thousand, unless otherwise stated)

Classification of biological assets into non-current and current component is based on the life cycle of a biological asset. Biological assets that will generate cash flow more than one year are classified as non-current biological assets, biological assets that will generate cash flow less than one year are classified as current biological assets.

Reconciliation of commercial and replacement poultry carrying values for the year ended 31 December 2016 and 2015 was presented as follows:

	For year 2016	For year 2015
As at 01 January	**34 450**	**37 178**
Increase in value as a result of assets acquisition	306	1 272
Increase in value as a result of capitalization of cost	9 408	9 084
Income/(Losses) from presentation of biological assets at fair value	647	2 410
Decrease in value as a result of assets disposal	(1 003)	(1 734)
Exchange differences	(4 629)	(13 760)
As at 31 December	**39 179**	**34 450**

For the year ended 31 December 2016 the Group produced shell eggs in the quantity of 1 479 mln items (31 December 2015: 1 196 mln).

Fair value of biological assets was estimated by the Group's specialists which have experience in valuation of such assets. Fair value was calculated by discounting of expected net cash flow (in nominal measuring) at the moment of eggs produced, using corresponding discount rate which is equal to 29.36% (31 December 2015: 33.47%). Management supposes that sale price and production and distribution costs fluctuations will comply with forecasted index of consumer price in Ukraine. The major assumptions were performed on the basis of internal and external information and it reflected Management's assessment of the future agricultural prospect.

Biological assets of the Group are measured at fair value within Level 3 of the fair value hierarchy.

Value measurement is a maximum value exposed to the following assumptions which were used in fair value calculations of biological assets:

	Assumption as at 31 December 2016	Assumption as at 31 December 2015
Eggs sale price, USD per item (UAH per item)	0.061 (1.560)	0.067 (1.464)
Discount rate, %	29.36%	33.47%
Long-term inflation rate of Ukrainian hryvnia, %	114.10%	113.50%

Based on the current situation in Ukraine that provides a high degree of uncertainty in relation to many of the assumptions in the biological assets revaluation model, and guided by the prudence concept, the Group used conservative approach for calculation of fair value of biological assets as at 31 December 2016.

(in USD thousand, unless otherwise stated)

Changes in key assumptions that were used in fair value estimation of biological assets had the following influence on the value of biological assets as at 31 December 2016 and 2015:

	31 December 2016	31 December 2015
1% decrease in egg sale price	(1 015)	(926)
1% increase in discount rate	(532)	(500)
1% increase in long-term inflation rate of Ukrainian hryvnia	458	416

18. Property, plant and equipment and intangible assets

	Buildings	Plant and equipment	Vehicles	Furniture and fittings	Construction-in-progress and uninstalled equipment	Intangible assets	Total
Cost or valuation							
As at 31 December 2014	**21 919**	**25 022**	**744**	**375**	**4 392**	**36**	**52 488**
Additions	892	5 323	33	38	3 486	-	9 772
Transfer	583	2 375	-	5	(2 963)	-	-
Disposals	(91)	(191)	(1)	(3)	-	-	(286)
Currency translation difference	(7 672)	(9 281)	(257)	(132)	(1 405)	(12)	(18 759)
As at 31 December 2015	**15 631**	**23 248**	**519**	**283**	**3 510**	**24**	**43 215**
Additions	195	28	262	41	8 417	-	8 943
Transfer	3 089	6 808	91	26	(10 014)	-	-
Disposals	(158)	(288)	-	(6)	1	-	(451)
Currency translation difference	(2 032)	(3 097)	(81)	(36)	(341)	(2)	(5 589)
As at 31 December 2016	**16 725**	**26 699**	**791**	**308**	**1 573**	**22**	**46 118**
Depreciation and amortization (D&A)							
As at 31 December 2014	**(3 969)**	**(7 301)**	**(443)**	**(260)**	**-**	**(8)**	**(11 981)**
D&A charge	(920)	(1 407)	(42)	(55)	-	(2)	(2 426)
Disposals	82	172	1	3	-	-	258
Currency translation difference	1 437	2 614	155	95	-	3	4 304
As at 31 December 2015	**(3 370)**	**(5 922)**	**(329)**	**(217)**	**-**	**(7)**	**(9 845)**
D&A charge	(753)	(1 615)	(62)	(61)	-	(1)	(2 492)
Disposals	158	288	-	4	-	-	450
Currency translation difference	432	776	42	30	-	1	1 281
As at 31 December 2016	**(3 533)**	**(6 473)**	**(349)**	**(244)**	**-**	**(7)**	**(10 606)**
Net book value							
As at 31 December 2016	**13 192**	**20 226**	**442**	**64**	**1 573**	**15**	**35 512**
As at 31 December 2015	**12 261**	**17 326**	**190**	**66**	**3 510**	**17**	**33 370**
As at 31 December 2014	**17 950**	**17 721**	**301**	**115**	**4 392**	**28**	**40 507**

(in USD thousand, unless otherwise stated)

As at 31 December 2016 net book value of property plant and equipment which was used as collateral for bank loans is nil and property, plant and equipment via finance lease amounted USD 139 thousand (2015: USD 191 thousand and plant and equipment via finance lease USD 191 thousand).

As at 31 December 2016 construction-in-progress and uninstalled equipment also included prepayments for the property, plant and equipment which amounted to USD 248 thousand (2015: USD 1 553 thousand).

As at 31 December 2016, included within property, plant and equipment were fully depreciated assets with the original cost of USD 2 235 thousand (2015: USD 2 632 thousand, 2014: USD 2 769 thousand).

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, 2015 and 2014.

19. Other non-current assets

Other non-current assets include interest-free loans issued to third parties BV Trading LLC and BVV Equipment LLC in amounts of USD 564 thousand and USD 394 thousand correspondingly. The contractors provided production complex for the production of egg products as a pledge for those agreements with total pledge value of USD 960 thousand. Since January 2017 the Group concluded operating lease agreement for stated above property, plant and equipment with monthly payment USD 2 thousand and maturity date 31 December 2018.

20. Inventories

	As at 31 December 2016	As at 31 December 2015
Raw materials	5 656	8 099
Agricultural produce and finished goods	1 563	1 458
Package and packing materials	795	684
Work in progress	120	50
Other inventories	994	752
(Less: impairment of agricultural produce and finished goods)	(5)	(53)
Total	**9 123**	**10 990**

21. Trade and Other Receivables

	As at 31 December 2016	As at 31 December 2015
Trade receivables	11 425	9 092
VAT for reimbursement	1 028	1 431
Receivables for securities sold but not yet settled	-	70
Other accounts receivable	13	37
Provision for doubtful accounts receivable	(222)	(275)
Total	**12 244**	**10 355**

(in USD thousand, unless otherwise stated)

Trade receivables from third parties are non-interest bearing and are generally on 30-90 days credit terms. For larger customers the Group grants credit for up to 45-180 days.

Trade and other receivables net of impairment loss provisions denominated in the following currencies:

	As at 31 December 2016	As at 31 December 2015
UAH	10 789	9 079
USD	1 417	1 242
EUR	38	34
Total	**12 244**	**10 355**

22. Cash and cash equivalents

	Note	As at 31 December 2016	As at 31 December 2015
Cash in banks	a)	9 596	8 000
Cash in deposit	b)	2 574	2 955
Cash on hand		8	7
Total		**12 178**	**10 962**

a) Cash in banks by country of bank location denominated in the following currencies:

	Currency	As at 31 December 2016	As at 31 December 2015
Ukraine	UAH	7 903	3 727
Ukraine	USD	2 375	5 192
Ukraine	EUR	733	96
Ukraine	PLN	-	51
Total in Ukraine		**11 011**	**9 066**
Poland	USD	475	1 782
Poland	EUR	340	57
Poland	PLN	1	-
Total in Poland		**816**	**1 839**
Netherlands	EUR	32	47
Total in Netherlands		**32**	**47**
Denmark	USD	110	2
Denmark	EUR	-	1
Total in Denmark		**110**	**3**
United Kingdom	USD	79	-
United Kingdom	EUR	122	-
Total in United Kingdom		**201**	**-**
Total cash in banks		**12 170**	**10 955**

(in USD thousand, unless otherwise stated)

b) Deposits by country of bank location

Country	Currency	Interest rate, %	Maturity	As at 31 December 2016
Ukraine	UAH	11%	16.01.2017	1 103
Ukraine	UAH	10%	24.02.2017	1 471
Total				**2 574**

Country	Currency	Interest rate, %	Maturity	As at 31 December 2015
Ukraine	UAH	14%	18.01.2016	833
Ukraine	UAH	15%	12.01.2016	1 250
Ukraine	UAH	11%	05.01.2016	872
Total				**2 955**

As at 31 December 2016 cash at banks earns 9.8%-11% (2015: 11%-14%) interest based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and two months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

As at 31 December 2016 "Cash and cash equivalents" include cash in bank in amount to USD 287 thousand (2015: nil) which encumbered to secure letter of credit under the agreement with «Big Dutchman GmbH».

23. Equity

Issued capital and capital distribution

For the year ended 31 December 2016 there were no changes in issued capital. As referred to in Note 1, the Company was incorporated on 22 March 2011.

The Company's authorized share capital amounts to EUR 225 000 and consists of 22 500 000 ordinary shares with a nominal value off EUR 0.01 each. As at 31 December 2011, 6 000 000 ordinary shares were issued and fully paid. In June 2011 the shares of the Company were listed on the Warsaw Stock Exchange.

At 31 December 2016 and 2015 the shareholder interest above 5% in the Share capital of Company was as follows:

	As at 31 December 2016	As at 31 December 2015
Prime One Capital Ltd.	70.24%	70.24%
Generali Otwarty Fundusz Emerytalny	9.94%	9.94%
FAIRFAX FINANCIAL Holdings Limited	5.35%	5.35%
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	5.02%	5.02%

(in USD thousand, unless otherwise stated)

Foreign currency translation reserve

According to section 373, Book 2 of the Dutch Civil Code, the Company's share capital has been converted at the exchange rate prevailing at the reporting date. The EUR 60 000 (equivalent to 6 000 000 shares) has been converted into USD 63 151 (31 December 2015: USD 65 448). The result arising from exchange rate differences has been recorded in the “Foreign currency translation reserve”.

The foreign currency translation reserve is used also to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Share premium

As has been mentioned previously, in June 2011 the Group’s shares have been placed on WSE. As a result of the transaction, USD 33 048 thousand was raised while the IPO costs amounted to USD 2 115 thousand. In these financial statements funds raised as a result of IPO are reflected in share premium as at 31 December 2011. For the years ended 31 December 2016 and 2015, there were no movements in share premium.

Dividends payable of the Company

During the year ended 31 December 2016 and 2015, no dividends have been declared and paid.

24. Interest-bearing loans and other financial liabilities

	Currency	Effective interest rate, %	Maturity	As at 31 December 2016	As at 31 December 2015
Current interest-bearing loans and other financial liabilities					
Landesbank Berlin AG / AKA Ausfuhrkredit-Gesellschaft mbH loan	EUR	2.25% + EURIBOR (6m)	30.12.2021	1 517	1 572
Landesbank Berlin AG loan	EUR	1.65% + EURIBOR (6m)	30.12.2020	2 253	1 977
Other current loans	UAH	-	-	25	28
Short-term financial lease liabilities (a)	UAH	7.0%	28.09.2017	35	57
Total current interest-bearing loans and other financial liabilities				**3 830**	**3 634**
Non-current interest-bearing loans and other financial liabilities					
Landesbank Berlin AG / AKA Ausfuhrkredit-Gesellschaft mbH loan	EUR	2.25% + EURIBOR (6m)	30.12.2021	7 966	8 372
Landesbank Berlin AG loan	EUR	1.65% + EURIBOR (6m)	30.12.2020	3 479	4 985
Long-term financial lease liabilities (a)	UAH	7.0%	28.09.2017	-	41
Total non-current interest-bearing loans and other financial liabilities				**11 445**	**13 398**
Total interest-bearing loans and other financial liabilities				**15 275**	**17 032**

(in USD thousand, unless otherwise stated)

Covenants

The Group's loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios and other legal matters. Covenant breaches generally permit lenders to demand accelerated repayment of principal and interest.

As at 31 December 2016 and 2015 the Group was not in breach of any financial covenants which allow lenders to demand immediate repayment of loans.

As at 31 December 2016 net book value of property plant and equipment which was used as collateral for bank loans is nil and property, plant and equipment via finance lease amounted USD 139 thousand (2015: USD 191 thousand and plant and equipment via finance lease USD 191 thousand).

(a) Finance lease liabilities

	As at 31 December 2016		As at 31 December 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable under finance lease:				
Within a year	36	35	62	57
From one to five years	-	-	43	41
Above 5 years	-	-	-	-
	36	35	105	98
Less: financial expenses of future periods	(1)		(7)	
Present value of lease liabilities	35	35	98	98
Less: amount to be paid within a year		(35)		(57)
Amount to be paid after one year		-		41

Finance lease obligations represent amounts due under agreements for lease of poultry cage equipment with Ukrainian companies. Net carrying value of property, plant and equipment acquired via finance lease as at 31 December 2016 and 2015 was as follows:

	As at 31 December 2016	As at 31 December 2015
Plant and equipment	139	191
Total	**139**	**191**

As at 31 December 2016 and 2015 there were no restrictions imposed by lease arrangements, in particular those concerning dividends, additional debt or further leasing.

(in USD thousand, unless otherwise stated)

25. Trade and other payables

	As at 31 December 2016	As at 31 December 2015
Trade payables	4 091	3 474
Employee benefit liability	221	182
Taxes payable	89	111
Liability for unused vacation	211	151
VAT liabilities	335	37
Income tax payables	22	25
Other payables	39	204
Total	**5 008**	**4 184**

Trade and other payables denominated in the following currencies:

	As at 31 December 2016	As at 31 December 2015
UAH	4 667	2 674
EUR	325	1 468
USD	15	40
PLN	1	1
RUB	-	1
Total	**5 008**	**4 184**

26. Related party disclosures

For the purposes of these consolidated financial statements, the parties are considered to be related, if one of the parties has the ability to exercise control over the other party or influence significantly the other party in making financial and operating decisions. Considering the transactions with each possible related party, particular attention is paid to the essence of relationships, not merely their legal form.

Related parties may enter into transactions, which may not always be available to unrelated parties, and they may be subject to such conditions and such amounts that are impossible in transactions with unrelated parties.

According to the criteria mentioned above, related parties of the Group are divided into the following categories:

(A). Key management personnel;

(B). Companies which activities are significantly influenced by the Beneficial Owners;

(C). Other related parties.

(in USD thousand, unless otherwise stated)

The following companies and individuals are considered to be the Group's related parties as at 31 December 2016, and 2015:

(A). Key management personnel:	**Position:**
Borys Bielikov	Executive Director / CEO
Vitalii Veresenko	Non-executive director
Marc van Campen	Non-executive director
Sergii Karpenko	Non-executive director
Vladimir Polishchuk	Chief Financial Officer
Natalia Malyovana	First Deputy CEO / Commercial director
Arnis Veinbergs	Deputy CEO in charge of Production activity
Vitalii Voron	Production director
Liliia Chernyak	HR director

(B). Companies which activities are significantly influenced by the Key management personnel:

Agrofirma Boryspilsky Hutir LLC

Aleksa LTD LLC

As at 31 December 2016, and 2015 trade accounts receivable from related parties and advances issued to related parties were presented as follows:

	As at 31 December 2016	As at 31 December 2015
Prepayments to related parties		
(B). Companies which activities are significantly influenced by the Beneficial Owners:		
Aleksa LTD LLC	50	56
Total	**50**	**56**

Compensation of key management personnel of the Group

The amount of remuneration of key management personnel of the group foe the year ended 31 December 2016 and 2015 was presented as follows:

	For year 2016	For year 2015
Salaries and contribution to social security fund (short-term employee benefits):		
Borys Bielikov	6	9
Vitalii Veresenko	5	6
Marc van Campen	23	17
Other key management personnel	100	117
Total	**134**	**149**

(C). Other related parties:

For the year ended 31 December 2016, and 2015 the Group has no other related parties.

27. Commitments and contingencies

Contingent liabilities

Operating environment. In 2016, the continued political and economic turmoil in Ukraine. In 2016, Ukraine has also continued to suffer from the separatist movements in the Lugansk and Donetsk regions. (The Group does not have any assets in Crimea, Donetsk or Luhansk regions).

These events resulted in devaluation of the Ukrainian hryvnia against major foreign currencies, increase in annual inflation rate 12% (2015: 43%) and other negative influences on the economic environment of Ukraine. Unfavorable conditions on markets where Ukraine's primary commodities where traded also influenced further devaluation of the Ukrainian hryvnia against major foreign currencies. Ukrainian companies and banks continued to suffer from the lack of funding from domestic and international financial markets. However, in 2016 Ukraine economy has signs of stabilization, what also resulted in decrease devaluation of the national currency against major foreign currencies in comparison with the previous year and GDP growth around 1%. In 2016 National Bank of Ukraine canceled restriction about decrease of the required share of foreign currency proceeds sale to 65% and permission of dividends remittance.

From 2015, political and economic relationships between Ukraine and the Russian Federation remained strained, leading to a significant reduction in trade and economic cooperation. On 1 January 2016, the free-trade section of Ukraine's Association Agreement with the European Union 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.

Significant external financing is required to support economic stabilization and the political situation depends, to a large extent, upon success of the Ukrainian government's efforts. During 2015 and 2016, Ukraine received the first tranches of extended fund facilities agreed with the IMF. Further economic and political developments are currently difficult to predict and an adverse effect on the Ukrainian economy may continue.

Taxation. 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 interest. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and interest, 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.

From 1 January 2017 Tax Code of Ukraine was changed in part which regulates the privileged VAT regime for agricultural companies as a result, specific VAT subsidies is canceled. However, from 1 January 2017, in order to continue state support for agricultural companies, tax legislation introduces budget subsidies. From 2017 onwards, budget subsidies will be provided until 1 January 2022. 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.

The Group is currently estimating the impact of these new changes but does not expect these to result in a significant change in the Group's effective tax rate.

Starting from 1 September 2013, the Tax Code of Ukraine introduced new rules, based on OECD transfer pricing guidelines, for determining and applying fair market prices, which significantly changed transfer pricing regulations in Ukraine. The Group exports goods and services, which may potentially fall under the scope of the new Ukrainian transfer pricing regulations. The Group submitted a controlled transaction report within the required deadline. Management believes that the Group is in compliance with transfer pricing regulation requirements.

Legal issues. As at 31 December 2016 and 2015 the Group is involved in litigations and other claims that are in the ordinary course of its business activities. Management believes that the resolution of such matters will not have a material impact on its financial position or operating results

Capital commitments. As at 31 December 2016 the Group had contract liabilities for acquisition of property, plant and equipment equal is nil (2015: USD 28 thousand).

28. Financial risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through a combination of debt and equity capital. 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 the issue of new debt or the redemption of existing debt.

The capital structure of the Group consists of debt, which includes the borrowings and cash and cash equivalents disclosed in Notes 24 and 22 respectively, and equity attributable to the equity holders of the parent, comprising issued capital, share premium, reserves and retained earnings.

Gearing ratio

The Group's management reviews quarterly the capital structure of the Group. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

(in USD thousand, unless otherwise stated)

	As at 31 December 2016	As at 31 December 2015
Debt liabilities*	15 274	17 032
Cash and cash equivalents and deposits	(12 178)	(10 962)
Net debt	**3 096**	**6 070**
Equity**	88 404	78 507
Gearing ratio	**4%**	**8%**

* Debts include short-term and long-term borrowings

** Equity includes the share capital, share premium, retained earnings and foreign currency translation reserve

Financial risk management

The main risks inherent to the Group’s operations are those related to credit risk exposures, liquidity risk, market movements in currency rates and interest rates and potential negative impact of livestock diseases.

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's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment. The majority of Group's clients are longstanding clients, there were no significant losses during 2016 and 2015 resulting from non-fulfillment of obligations by clients. Concentration of credit risk on trade accounts receivable is characterized by the following indicators:

For the year ended 31 December 2015 USD 29 635 thousand or 38% of Group's sales revenue is related to sales transactions, realized with 5 major customers of the Group. As at 31 December 2015 USD 5 890 thousand or 52% of trade accounts receivable relates to 5 major debtors.

The credit quality of the gross trade receivables from related and third parties was as follows:

	As at 31 December 2016	As at 31 December 2015
Fully performing	7 879	7 421
Past due but not impaired	3 393	1 474
Impaired	153	197
Total trade receivables (gross)	**11 425**	**9 092**

(in USD thousand, unless otherwise stated)

As at 31 December 2016 and 2015 the ageing of trade account receivables that were not impaired was as follows:

	As at 31 December 2016	As at 31 December 2015
0-30 days	7 065	6 575
31-90 days	3 306	1 896
91-180 days	422	400
181-360 days	253	24
more than 360 days	279	-
Total	**11 325**	**8 895**

Liquidity risk

Liquidity risk is the risk of the Group's failure to fulfill its financial obligations at the date of maturity. The Group's approach to liquidity management is to ensure, to the extent possible, permanent availability of sufficient liquidity for the Group to fulfill its financial obligations in due time (both in normal conditions and in non-standard situations), by avoiding unacceptable losses or the risk of damage to the reputation of the Group.

In accordance with plans of the Group, its working capital needs are satisfied by cash flows from operating activities, as well as by use of loans if cash flows from operating activities are insufficient for liabilities to be settled.

The table below represents the expected maturity of components of working capital:

As at 31 December 2016	Carrying value	Contractual cash flows	Less than 3 months	3-6 months	6-12 months	Over 1 year
Non-derivative financial liabilities:						
Trade and other payables	5 008	5 008	4 590	189	135	94
Current interest-bearing loans and other financial liabilities	3 830	3 830	-	1 915	1 915	-
Non-current interest-bearing loans and other financial liabilities	11 444	11 444	-	-	-	11 445
Total	**20 282**	**20 282**	**4 590**	**2 104**	**2 050**	**11 539**

As at 31 December 2015	Carrying value	Contractual cash flows	Less than 3 months	3-6 months	6-12 months	Over 1 year
Non-derivative financial liabilities:						
Trade and other payables	4 184	4 184	4 184	-	-	-
Current interest-bearing loans and other financial liabilities	3 634	3 634	-	1 817	1 817	-
Non-current interest-bearing loans and other financial liabilities	13 398	13 398	-	-	-	13 398
Total	**21 216**	**21 216**	**4 184**	**1 817**	**1 817**	**13 398**

Currency risk

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, at the same time the management of the Group sets limits on the level of exposure by currencies.

Exposure to foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2016 and 2015 were as follows:

As at 31 December 2016	PLN	RUB	USD	EUR	UAH	Total
(in conversion to USD thousand)						
Assets						
Cash and cash equivalents	1	-	3 040	1 227	7 910	12 178
Trade receivables	-	-	1 417	38	9 748	11 203
Liabilities						
Current interest-bearing loans and other financial liabilities	-	-	-	(3 771)	(59)	(3 830)
Non-current interest-bearing loans and other financial liabilities	-	-	-	(11 445)	-	(11 445)
Trade accounts payable	(1)	-	-	(305)	(3 785)	(4 091)
Other payables	-	-	(15)	(19)	(5)	(39)
Net exposure to foreign currency risk	**-**	**-**	**4 442**	**(14 275)**	**13 809**	**3 976**

As at 31 December 2015	PLN	RUB	USD	EUR	UAH	Total
(in conversion to USD thousand)						
Assets						
Cash and cash equivalents	51	-	6 976	200	3 735	10 962
Trade receivables	-	-	2 194	459	6 094	8 747
Liabilities						
Current interest-bearing loans and other financial liabilities	-	-	-	(3 549)	(85)	(3 634)
Non-current interest-bearing loans and other financial liabilities	-	-	-	(13 357)	(41)	(13 398)
Trade accounts payable	-	(1)	(3)	(1 440)	(2 030)	(3 474)
Other payables	(1)	-	(36)	(28)	(139)	(204)
Net exposure to foreign currency risk	**50**	**(1)**	**9 131**	**(17 715)**	**7 534**	**(1 001)**

This sensitivity rate represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for expected change in foreign currency rates.

Effect in USD thousand:

	Increase in currency rate against UAH	Effect on profit before tax
31 December 2016		
USD	15%	666
EUR	15%	(2 141)
PLN	15%	-
31 December 2015		
USD	35%	3 196
EUR	35%	(6 200)
PLN	35%	18

The effect of foreign currency sensitivity on shareholders' equity is equal to that on profit or loss.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The major part of the Group's borrowings bear variable interest rates which are linked to EURIBOR. Other borrowings are presented at fixed interest rates.

The below details the Group's sensitivity to increase or decrease of floating rate by 1%. The analysis was applied to interest bearing liabilities (bank borrowings under facility agreements) based on the assumption that the amount of liability outstanding as of the balance sheet date was outstanding for the whole year.

	As at 31 December 2016	As at 31 December 2015
Profit/(loss)	EURIBOR 152/(152)	EURIBOR 169/(169)

The effect of interest rate sensitivity on shareholders' equity is equal to that on profit or loss.

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. The 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 with the its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

(in USD thousand, unless otherwise stated)

29. Financial instruments

Estimated fair value disclosure of financial instruments is made in accordance with the requirements of International Financial Reporting Standard 7 “Financial Instruments: Disclosure”. 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 Group uses the following hierarchy for determining the fair value of financial instruments:

- Level 1 ("L1") - quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 ("L2") - other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 ("L3") - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The Group does not acquire, hold or issue derivative financial instruments for trading purposes.

The following table presents the classification, subsequent measurement, carrying values and fair values of the Group's financial assets and liabilities:

	Subsequent measurement	31 December 2016		31 December 2015	
		Carrying value	Fair value	Carrying value	Fair value
Financial assets:					
Trade and other receivables (a)	Amortized cost	12 244	12 244	10 355	10 355
Cash and cash equivalents		12 178	12 178	10 962	10 962
		24 422	**24 422**	**21 317**	**21 317**
Financial liabilities:					
Current interest-bearing loans and borrowings (a)	Amortized cost	3 830	3 830	3 634	3 634
Non-current interest-bearing loans and borrowings (b)	Amortized cost	11 445	11 445	13 398	13 398
Trade and other payables (current) (a)	Amortized cost	5 008	5 008	4 184	4 184
		20 283	**20 283**	**21 216**	**21 216**

The following methods and assumptions were used to estimate the fair values:

- The Group's short-term financial instruments, comprising trade and other receivables, current interest-bearing loans and borrowings, trade and other payables are carried at amortized cost which, due to their short term nature, approximates their fair value.
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

30. Subsequent events

There were no significant events that occurred after the balance sheet date.

Company
Financial Statements of
Ovostar Union N.V.

Balance Sheet

As at 31 December 2016

(in USD thousand, unless otherwise stated)

	Note	As at 31 December 2016	As at 31 December 2015
Assets			
Non-current assets			
Financial fixed assets	3	103 838	91 682
Total non-current assets		**103 838**	**91 682**
Current assets			
Cash and cash equivalents	5	1 079	1 888
Other accounts receivables	4	205	24
Total current assets		**1 284**	**1 912**
Total assets		**105 122**	**93 594**
Equity and liabilities			
Equity			
Issued capital		63	65
Foreign currency translation reserve		(127 993)	(115 664)
Legal reserve subsidiary		83 373	91 644
Share premium reserve		30 933	30 933
Retained earnings		77 364	38 139
Profit for the year		22 153	30 954
Equity attributable to owners of the parent		**85 893**	**76 071**
Non-current liabilities			
Non-current loans and borrowings	7	11 445	13 357
Total non-current liabilities		**11 445**	**13 357**
Current liabilities			
Trade and other payables	8	339	617
Advance received		1 690	-
Current loans and borrowings	7	5 755	3 549
Total current liabilities		**7 784**	**4 166**
Total liabilities		**19 229**	**17 523**
Total equity and liabilities		**105 122**	**93 594**

Notes on pages 93-98 form an integral part of these company's financial statements

Profit & Loss Account

For the year ended 31 December 2016
(in USD thousand, unless otherwise stated)

	For year 2016	For year 2015
Personnel expenses	(23)	(18)
Administrative expenses	(200)	(237)
Other operating income	437	-
Total expenses	**214**	**(255)**
Foreign currency exchange gain	490	1 186
Interest expenses	(1 094)	(1 066)
Interest income	-	8
Other net financial income/(expenses)	-	(52)
Net finance profit	**(604)**	**76**
Profit of participation interests after taxation	22 543	31 133
Profit for the period, net of tax	**22 153**	**30 954**

Notes on pages 93-98 form an integral part of these company's financial statements

Notes to the Company's Financial Statements

(in USD thousand, unless otherwise stated)

1. General

The Company financial statements are prepared in accordance with Title 9 of Book 2 of the Dutch Civil Code. The Company uses the option provided in section 2:362 (8) of the Dutch Civil Code in that the principles for the recognition and measurement of assets and liabilities and determination of result (hereinafter referred to as "principles for recognition and measurement") as applied in the Consolidated financial statements are also applied in the Company financial statements. Reference is made to the notes to the Consolidated financial statements for a description of the principles for recognition and measurement. Investments in Group companies are carried at equity value, calculated according to the Group accounting policies.

Reporting entity

The Company financial statements of Ovostar Union N.V. (the 'Company') are included in the consolidated financial statements of Ovostar Union Group.

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e. only IFRS that is adopted for use in the EU at the date of authorization) as explained further in the notes to the consolidated financial statements.

For information on group companies of Ovostar Union N.V. please refer to Note 7 of the Consolidated financial statements.

Going concern

As at 31 December 2016 current liabilities of the Company exceeded its current assets. In 2016, Ovostar Union N.V. registered trade company «International Food Trade Limited». This trade company sells the products to other countries and accumulates margin (and foreign currencies being USD) from export sales. Loan repayment on the level of Ovostar Union N.V. will be secured by «International Food Trade Limited» either in the form of dividends to the parent company or through an intra group loan from subsidiary «International Food Trade Limited» and subsidiaries in Ukraine. As a consequence, management of Ovostar Union N.V. considers that the Company will be able to continue its activities as a going concern and will be able to repay its liabilities due to third party creditors. Therefore, Company's financial statements have been prepared under the going concern assumption. Based on the forecast/budget 2017 the revenue from export sales is sufficient to cover the repayments due in 2017 (and beginning of 2018). Also, group management is investigating the cost in distributing dividends to NV-level form Ukraine.

Notes on pages 93-98 form an integral part of these company's financial statements

(in USD thousand, unless otherwise stated)

2. Significant accounting policies

Financial fixed assets

Participating interests (subsidiaries, joint ventures and associates) are measured on the basis of the equity method.

Shareholders' equity

The translation reserve and other legal reserves were previously formed under, and are still recognized in accordance with, the Dutch Civil Code.

Profit of participating interests

The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests, themselves, are not recognized.

3. Financial fixed assets

The financial fixed assets consist solely of participating interests in Group companies as follows:

	For year 2016	For year 2015
Group companies as at 01 January	**91 682**	**92 129**
Further investments in a group company	1 944	6 034
Result	22 543	31 133
FX rate difference	(12 331)	(37 614)
Group companies as at 31 December	**103 838**	**91 682**

Further investments in a group company amounting to USD 1 944 thousand consists of property, plant and equipment transferred to the subsidiary (2015: USD 6 034 thousand).

The degree of control exercised by Ovostar Union N.V. over significant subsidiary is as follows:

	Country of incorporation	% share as at	
		As at 31 December 2016	As at 31 December 2015
LLC Ovostar Union	Ukraine	100	100
International Food Trade Limited	British Virgin Islands	100	-

4. Other accounts receivable

	As at 31 December 2016	As at 31 December 2015
Ovostar LLC loan	10	10
Ovostar Union LLC loan	195	10
Other	-	4
Total	**205**	**24**

Notes on pages 93-98 form an integral part of these company's financial statements

(in USD thousand, unless otherwise stated)

5. Cash and cash equivalents

The Company's cash balances are available upon demand.

As at 31 December 2016 "Cash and cash equivalents" include cash in bank in amount to USD 287 thousand (2015: nil) which encumbered to secure letter of credit under the agreement with «Big Dutchman GmbH».

6. Issued capital

The authorized share capital amounts to EUR 225,000 divided into 22 500 000 ordinary shares of EUR 0.01 nominal value each. During 2011, 6 000 000 shares have been issued. The issued shares are converted into USD according to art 373 par 5 of the Dutch civil code using an exchange rate of 1 EUR = 1.091 USD.

For the movement schedule of issued capital, share premium, foreign currency translation reserve and profit for the year please refer to the specification of the Consolidated statement of changes in equity included in the Consolidated financial statements. Legal reserve subsidiary as at 31 December 2016 was in the amount of USD 83 373 thousand (in 2015: USD 91 644 thousand). The legal reserve for investments in subsidiaries (Section 2:389(6) of the Dutch Civil Code) is formed for the share in the positive results of the entities concerned and in fair value gains recognized directly in equity. Amounts are not recognized in respect of entities whose cumulative results are not positive. The reserve is reduced by the amount of dividend distributions, fair value losses recognized directly in equity and any distributions which Group would be able to effect without restriction.

7. Loans and borrowings

	Note	As at 31 December 2016	As at 31 December 2015
Current loans:			
Landesbank Berlin AG / AKA Ausfuhrkredit-Gesellschaft mbH loan	i)	1 517	1 572
Landesbank Berlin AG loan	i)	2 253	1 977
International Food Trade Limited	ii)	1 985	-
Total current loans		**5 755**	**3 549**
Non-current loans:			
Landesbank Berlin AG / AKA Ausfuhrkredit-Gesellschaft mbH loan	i)	7 966	8 372
Landesbank Berlin AG loan	i)	3 479	4 985
Total non-current loans		**11 445**	**13 357**
Total		**17 200**	**16 906**

Notes on pages 93-98 form an integral part of these company's financial statements

(in USD thousand, unless otherwise stated)

ι) As at 31 December 2016 and 2015 loan and borrowings comprised loans received from Landesbank Berlin AG and AKA Ausfuhrkredit-Gesellschaft mbH. Landesbank Berlin AG and AKA Ausfuhrkredit-Gesellschaft mbH loan are guaranteed by subsidiaries. For detail information about loans and borrowings refer to Note 24 in the Consolidated financial statements.

ιι) As at 31 December 2016 loan and borrowings comprised intra group loans received from International Food Trade Limited with interest rate 1.25%+EURIBOR and maturity date 14 December 2017.

8. Trade and other payables

Trade and other payables included payables from third parties and payables to supplier for property, plant and equipment.

	As at 31 December 2016	As at 31 December 2015
Big Dutchman	287	-
Salmet	18	552
Other	34	65
Total	**339**	**617**

9. Employees

The Company has no employees other than directors.

10. Directors

The Company is managed by the Board of Directors which consists of four members: one Executive Director and three Non-Executive directors.

The Board of Directors as at 31 December 2016 comprised:

Name	Position
V. Veresenko	Chairman of the Board, Non-Executive Director (non-independent)
B. Bielikov	Chief Executive Officer, (non-independent)
M. van Campen	Non-Executive Director
S. Karpenko	Non-Executive Director

Changes in the Board of Directors of Ovostar Union N.V.

In June 2015 on the Annual General Meeting of Shareholders Board has approved (re)appointment of the members of the Board. All members of the Board have been (re)appointed for a period of 4 years. The Meeting approved Mr. Sergei Karpenko for the position of non-executive Board member.

Notes on pages 93-98 form an integral part of these company's financial statements

(in USD thousand, unless otherwise stated)

11. Audit fee

Fees paid to the Group's auditor for 2016 and 2015 can be broken down into the following:

	For year 2016	For year 2015
Baker Tilly Ukraine:		
Audit and review of financial statements	27	27
Baker Tilly Berk N.V.		
Audit fees	31	33
Total	**58**	**60**

Audit fees of financial statements include the fees for professional services rendered by Baker Tilly Berk N.V. and Baker Tilly Ukraine and relate to the audit of the Company's Consolidated and Company's financial statements and its subsidiary.

Amsterdam, 12 April 2017

[signed]
Borys Bielikov
Chief Executive Officer, Executive Director

[signed]
Vitalii Veresenko
Chairman of the Board, Non-executive Director

[signed]
Marc Van Campen
Head of Audit Committee, Non-executive Director

[signed]
Sergii Karpenko
Non-executive Director

Other information

Profit appropriation according to the Articles of Association

The salient points of Article 24 of the Articles of Association governing the appropriation of profit are:

Distribution of profits shall be made following the adoption of the annual accounts which show that such distribution is allowed.

The company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the aggregate amount of the issued share capital and the reserves which must be maintained pursuant to the law.

Proposed appropriation of result

The board of directors proposes to add the profit to the general reserves. The proposal is not reflected in the financial statements.

Post balance sheet events

There were no significant events that occurred after the balance sheet date.

Notes on pages 93-98 form an integral part of these company's financial statements

Independent Auditor's Report

Auditors

BAKER TILLY BERK

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To the Shareholders and the Board of Directors
of Ovostar Union N.V.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

A. Report on the Audit of the Financial Statements 2016 included in the annual report

Our opinion

We have audited the accompanying financial statements 2016 of Ovostar Union N.V. (the company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Ovostar Union N.V. as at December 31, 2016 and of its results and its cash flows in 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements give a true and fair view of the financial position of Ovostar Union N.V. as at December 31, 2016 and of its results for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at December 31, 2016;
2. the following statements for 2016:
   the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at December 31, 2016;
2. the company profit and loss account for 2016; and
3. notes comprising a summary of the accounting policies and other explanatory information.

Basis for Our Opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.
We are independent of Ovostar Union N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch code of Ethics).

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

Materiality
Misstatements can arise from fraud or error and will be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.
Based on our professional judgement we determined the materiality for the financial statements as a whole at USD 1 million. The materiality is based on 1.5% of turnover. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons. We agreed with the Board of Directors that misstatements in excess of USD 0.050 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the Group Audit
Ovostar Union N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Ovostar Union N.V. Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were, the size and/or risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial statements or specific items.

The group audit mainly focused on covering group's activities in Ukraine (LLC "Ovostar Union" and its subsidiaries) and also included audit procedures at Dutch holding level (Ovostar Union N.V.)

We have performed audit procedures ourselves at Dutch holding level. When auditing LLC "Ovostar Union" and its subsidiaries, we have used the work of other auditors. As required by our professional rules and standards we have issued audit instructions and reviewed the work performed by the local auditors.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit on the financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Devaluation of Hryvna
The manufacturing components of the Group are incorporated in Ukraine and the Ukrainian hryvna is the functional currency for these components. The Ukrainian hryvnya devalued in 2016 against major foreign currencies. The National Bank of Ukraine introduced a range of measures aimed at limiting the outflow of customer deposits from the banking system, improving the liquidity of banks, and supporting the exchange rate of the Ukrainian hryvnya. In 2017, the Ukrainian hryvnya continued to devalue against the US dollar.

Our audit procedures included, among others, recalculation of foreign currency translation reserve and reconciliation of the current effect of functional currency conversion to the opening and closing balances. We reviewed the conversion methodology used by the Group management for compliance with requirements of IAS 21.

Biological Assets Valuation
The Consolidated Statement of financial position as at December 31, 2016 includes Biological assets for a total amount of USD 39,179,000 as at December 31, 2016. We refer to note 17 in the financial statements.
The fair value measurement of the biological assets highly depends on the projected cash flow and discount rate.
Our audit procedures included the test of input data and recalculated discount rate and evaluation of the assumptions used by management. Besides, we verified if the applied methodology has been consistent with prior periods.

VAT reimbursement
As at December 31, 2016 the Group classified and disclosed VAT assets in note 21 of the financial statements for a total amount of USD 1,028,000. Management believes that the group is able to fully reimburse VAT assets during 2017.
Our audit procedures included receipt of confirmations directly from Ukrainian tax authorities which confirmed the declared amount for reimbursement disclosed in Group financial statements. In addition to that we scrutinised transactions related to the VAT reimbursement and verified the valuation and classification.

BAKER TILLY
BERK

Emphasis of Matter regarding the political and economic crisis in Ukraine
We draw your attention to Note 27 "Commitments and contingencies" to the consolidated financial statements, which describes the current political crisis in Ukraine. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

Report on the other information included in the annual report
In addition to the financial statements and our auditor's report, the annual report contains other information that consists of:

- Report of the Management Board
- Governance Report
- Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.
By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

B. Report on other legal and regulatory requirements

We were engaged by the Board of Directors as auditor of Ovostar Union N.V. on October 4, 2011, as of the audit for the year 2011 and have operated as statutory auditor ever since that date.

C. Description of responsibilities regarding the financial statements

Responsibilities of Management and the Board of Directors for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern.

The Board of Directors is responsible for overseeing the company's financial reporting process.

Our Responsibilities for the Audit of the Financial Statements
Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.
Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, April 12, 2017

Baker Tilly Berk N.V.

signed by

J.H.J. Spiekker RA
Audit Partner

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Forward-looking statements notice

All forward-looking statements contained in this annual report with respect to our future financial and operational performance and position are, unless otherwise stated, based on the beliefs, expectations, projections and the estimates of our management representing their judgment as at the dates on which the statements have been made. Forward-looking statements are generally identifiable by the use of the words "may", "will", "should", "plan", "forecast", "expect", "anticipate", "estimate", "believe", "intend", "project", "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. Our actual operational and financial results or the same of our industry involve a number of known and unknown risks, uncertainties and other factors and they are not guaranteed to be similar to the forward-looking statements, although our management makes all effort to make forward-looking statements as accurate as possible. We do not undertake publicly to update or revise any forward-looking statement that may be made herein, whether as a result of new information, future events or otherwise.