

**AVANGARDCO INVESTMENTS PUBLIC  
LIMITED**

**Report and Consolidated Financial Statements**

**For the year ended 31 December 2018**

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

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**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Board of Directors and other officers**

## BOARD OF DIRECTORS:

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

## COMPANY SECRETARY:

Gliage Investments Limited  
3 Anexartisias & Kyriakou Matsi  
3040 Limassol  
Cyprus

## REGISTERED OFFICE:

3 Anexartisias & Kyriakou Matsi  
3040 Limassol  
Cyprus

## LEGAL ADVISORS:

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

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

## INDEPENDENT AUDITORS:

KPMG Limited  
14, Esperidon Str.  
1087 Nicosia, Cyprus

## BANKERS:

UBS AG  
Postfach, CH-8098 Zurich

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

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

We, the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of AvangardCo Investments Public Limited (the “Company”) for the year ended 31 December 2018, based on our opinion, which is a result of diligent and scrupulous work, declare that the elements written in the consolidated financial statements are true and complete.

Members of the Board of Directors:

Oleg Bakhmatyuk	
Nataliya Vasylyuk	
Oleg Michael Pohotsky	
Iryna Melnyk	

Person responsible for the preparation of the consolidated financial statements for the year ended 31 December 2018:

Stanislav Pohorilyi (Deputy CFO)	
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28 March 2019

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Management Report

The Board of Directors of AvangardCo Investments Public Limited (the “Company”) presents to the members its annual report together with the audited consolidated financial statements of the Company and of its subsidiaries (together with the Company referred to as “the Group”) for the year ended 31 December 2018.

### Principal activities

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

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

### Financial results

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 12 to the consolidated financial statements.

The loss for the year attributable to the owners of the Company amounted to USD 54 536 thousand (2017: loss USD 6 734 thousand) which the Board of Directors recommends to be transferred to the revenue reserve.

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

The Group recorded a loss of USD 55 794 thousand compared to a loss of USD 7 469 thousand in the previous year.

The loss is mainly the result of a decrease in the income from government grants and incentives and with the loss on exchange which is mainly a result of the retranslation of long-term bond liabilities.

The Group’s total assets increased to USD 516 345 thousand from USD 512 781 thousand.

### Future development

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

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

### Dividends

Based on the results, the Board of Directors does not recommend the payment of a dividend for the year (2017: nil).

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Management Report (cont.)

#### Principal risks and uncertainties

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

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

These events have led to the disappearance of economic links between Ukraine and the RF, the key export destination for many Ukrainian industries. Ukraine has lost control over large mining companies concentrated in the East of the country, which significantly decreased the inflow of foreign currency. Eventually, the national GDP has dropped, public finances have eroded, the national currency has suffered severe devaluation and the credit rating of the sovereign debt has continued to deteriorate. The newly elected Government of Ukraine had no financial power to avoid the economic downfall in years 2014-2015. Minimal international reserves and exhausted government accounts have forced the government to introduce administrative anti-crisis tools. The National Bank of Ukraine introduced currency restrictions: conversion limits, the requirement to convert 70% of foreign currency revenue into national currency, abroad dividend payment ban, ban on early repayment of foreign loans, cash withdrawal limitations. Such restrictions have limited the abilities of Ukrainian companies and banks to lend and borrow money on domestic and international markets.

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

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

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

#### Share capital

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Management Report (cont.)****Board of Directors**

The members of the Board of Directors as at 31 December 2018 and at the date of this report are presented on page 1.

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

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

The Directors are responsible for formulating, reviewing and approving the Company's and its subsidiaries' strategies, budgets, certain items of capital expenditures and senior personnel appointments. Although the Company is listed on the London Stock Exchange, it is not subject to the UK Corporate Governance Code issued by the Financial Reporting Council because it is a Cyprus incorporated company. Following the EU Directive in 2017 the Company is required to establish an audit committee. The Directors also intend to establish nomination and remuneration committees and may form other committees as necessary in order to improve corporate governance.

**Events after the reporting period**

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

**Branches**

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

**Related party balances and transactions**

Disclosed in note 32 to the consolidated financial statements.

**Independent Auditors**

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

By Order of the Board of Directors,

Nataliya Vasylyuk  
Chief Executive Officer

Nicosia, 28 March 2019





**Material uncertainty related to going concern**

We draw attention to notes 2.4, 14, 15 and 20 in the consolidated financial statements, which indicate that the Group is in default of the repayment of its bonds which matured in October 2018 and in breach of covenants pursuant to debt agreements with several financial institutions triggering restructuring negotiations with the bondholders and financial institutions whose outcome cannot be determined. We further draw attention to notes 4.13, 35 and 39 in the consolidated financial statements which discuss the political and economic environment in Ukraine and to the fact that the Group incurred a loss for the year amounting to USD56m and its current liabilities as at 31 December 2018 exceeded its current assets by USD297m. As stated in note 2.4, these events or conditions, along with other matters as set forth in note 2.4, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

<b>Valuation of biological assets</b>	
Refer to note 6 (biological assets) and to note 38 (fair values) to the consolidated financial statements.	
<b><i>The key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>The Group’s biological assets consist of poultry, which is measured at fair value less costs to sell. As at 31 December 2018 the total fair value of biological assets was USD52m</p> <p>Estimating the fair value is a complex process and required the use of valuation models which employed discounted cash flow techniques. The inputs to the aforementioned valuation model required a number of significant judgments and estimates and uses a number of inputs from mostly internal sources. Such estimates and judgments are subject to an inherent risk of error. Consequently, we have determined the valuation of biological assets to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>- considering the appropriateness of the valuation methodology used by the Group and agreeing its consistency with IFRS;</li> <li>- evaluating the operating effectiveness of controls and procedures over the estimation of the number of poultry;</li> <li>- evaluating the Group’s inputs used in calculating the estimated cash flows such as egg prices and inflation rate, through observation to internal supporting documentation and their reasonableness against external data;</li> <li>- evaluating the appropriateness of the discount rate used, which included observing market data from market sources such as bond yields, risk premiums and inflation rates;</li> <li>- testing the mathematical accuracy of the discounted cash flow model by reviewing the formulas used;</li> <li>- evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions, judgments and sensitivities.</li> </ul>

### ***Other information***

The Board of Directors is responsible for the other information. The other information comprises the management report, but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the corporate governance statement and corporate social responsibility statement, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. With regards to the management report, our report is presented in the "Report on other legal and regulatory requirements" section.

When we read the corporate governance statement, we are required to report if, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have identified material misstatements in relation to the information disclosed for items (iv) and (v) of the subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113 and if we have identified material misstatements in relation to the information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113. When we read the corporate social responsibility statement, we are required to report if we conclude that there is a material misstatement therein.

### ***Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements***

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

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

The Board of Directors and those charged with governance is responsible for overseeing the Group's financial reporting process.

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### *Auditors' responsibilities for the audit of the consolidated financial statements*

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore they key audit matters. We describe these matters in our auditors' report.

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

### ***Other regulatory requirements***

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

#### *Date of our appointment and period of engagement*

We were first appointed auditors of the Group by the General Meeting of the Company's members on 29 August 2011. Our total uninterrupted period of engagement is 8 years covering the periods ending 31 December 2011 to 31 December 2018 inclusive.

#### *Consistency of auditors' report to the additional report to the Audit Committee*

Although there is a legal requirement to have an Audit Committee, by the date of our report the Group did not manage to establish one. The additional report was presented to those charged with governance on the 1<sup>st</sup> of March 2019 and our audit opinion is consistent with it.

#### *Provision of non-audit services ("NAS")*

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

For the period to which our statutory audit relates, in addition to the audit, we provided Tax Services amounting to EUR 600 to the Group which are not disclosed in the management report or in the consolidated financial statements.

### ***Other legal requirements***

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

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.  
In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

### **Other matters**

#### ***Reporting responsibilities***

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

*Audit Committee*

The Company has not established an audit committee as required by Article 78 of Law L.53(I)/2017.

The engagement partner on the audit resulting in this independent auditors' report is Demetris S. Vakis.



Demetris S. Vakis, FCA  
Certified Public Accountant and Registered Auditor  
for and on behalf of

KPMG Limited  
Certified Public Accountants and Registered Auditors  
14 Esperidon Street  
1087 Nicosia  
Cyprus

28 March 2019

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**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of financial position**

AS AT 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

	Note	31 December 2018	31 December 2017
<b>ASSETS</b>			
Property, plant and equipment	5	325 805	334 640
Non-current biological assets	6	30 316	3 732
Deferred tax assets	18	8 259	8 662
Investments measured at amortized cost	7	-	2 840
Other non-current assets		97	5
<b>Non-current assets</b>		<b>364 477</b>	<b>349 879</b>
Inventories	9	19 697	56 301
Current biological assets	6	21 796	16 160
Trade accounts receivable, net	10	54 484	45 376
Prepaid income tax		55	35
Prepayments and other current assets, net	11	16 731	8 939
Taxes recoverable and prepaid	8	18 800	17 849
Cash and cash equivalents	12	20 305	18 242
<b>Current assets</b>		<b>151 868</b>	<b>162 902</b>
<b>TOTAL ASSETS</b>		<b>516 345</b>	<b>512 781</b>
<b>EQUITY</b>			
Share capital	13	836	836
Share premium	13	201 164	201 164
Reserve capital	13	115 858	115 858
Retained earnings		799 717	857 723
Effect of translation into presentation currency		(1 082 335)	(1 099 825)
<b>Equity attributable to owners of the Company</b>		<b>35 240</b>	<b>75 756</b>
<b>Non-controlling interests</b>		<b>7 932</b>	<b>8 765</b>
<b>TOTAL EQUITY</b>		<b>43 172</b>	<b>84 521</b>
<b>LIABILITIES</b>			
Long-term loans	14	320	42 750
Deferred tax liabilities	18	295	308
Deferred income		928	1 002
Dividends payable		22 894	29 542
<b>Non-current liabilities</b>		<b>24 437</b>	<b>73 602</b>
Short-term bond liabilities	15	235 889	231 612
Current portion of non-current liabilities	17	137 990	91 760
Trade payables	19	13 795	2 298
Other accounts payable	20	61 062	28 988
<b>Current liabilities</b>		<b>448 736</b>	<b>354 658</b>
<b>TOTAL LIABILITIES</b>		<b>473 173</b>	<b>428 260</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>516 345</b>	<b>512 781</b>

On 28 March 2019 the Board of Directors of AvangardCo Investments Public Limited approved and authorised these consolidated financial statements for issue.

\_\_\_\_\_  
Nataliya Vasylyuk

Director, CEO

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Iryna Melnyk

Director, CFO

The notes on pages 17 to 90 form an integral part of these consolidated financial statements.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Consolidated statement of profit and loss and other comprehensive income**

FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

	Note	for the year ended	
		31 December 2018	31 December 2017
Revenue	22	169 878	127 887
Income/(loss) from revaluation of biological assets at fair value	6	9 843	(3 108)
Cost of sales	23	(178 046)	(134 916)
<b>GROSS PROFIT/(LOSS)</b>		<b>1 675</b>	<b>(10 137)</b>
General administrative expenses	25	(10 429)	(8 955)
Distribution expenses	26	(10 215)	(7 746)
Income from government grants and incentives	30	89	19 242
Impairment loss on trade and other receivables, net	37	(9 185)	4 488
Gain on derecognition of financial assets measured at amortised cost		11 929	-
Other operating income/(expenses)	27	205	(684)
<b>LOSS FROM OPERATING ACTIVITIES</b>		<b>(15 931)</b>	<b>(3 792)</b>
Finance income	29	1 199	1 982
Finance costs	28	(31 275)	(33 699)
(Losses)/income on exchange		(9 209)	24 729
<b>NET FINANCE COSTS</b>		<b>(39 285)</b>	<b>(6 988)</b>
<b>LOSS BEFORE TAX</b>		<b>(55 216)</b>	<b>(10 780)</b>
Income tax credit	18	(578)	3 311
<b>LOSS FOR THE YEAR</b>		<b>(55 794)</b>	<b>(7 469)</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Effect from translation into presentation currency		17 914	(46 820)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(37 880)</b>	<b>(54 289)</b>
<b>LOSS ATTRIBUTABLE TO:</b>			
Owners of the Company		(54 536)	(6 734)
Non-controlling interests		(1 258)	(735)
		<b>(55 794)</b>	<b>(7 469)</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of the Company		(37 046)	(52 636)
Non-controlling interests		(833)	(1 653)
		<b>(37 880)</b>	<b>(54 289)</b>
<b>Loss per share</b>			
<b>Basic and diluted (USD)</b>	34	<b>(9)</b>	<b>(1)</b>

The notes on pages 17 to 90 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Consolidated statement of changes in equity**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
*(in USD thousand, unless otherwise stated)*

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Capital contribution reserve	Share premium	Retained earnings	Foreign currency translation reserve			
<b>Balance at 1 January 2017</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>864 457</b>	<b>(1 053 923)</b>	<b>128 392</b>	<b>10 418</b>	<b>138 810</b>
<b>Comprehensive income</b>								
Loss for the year	-	-	-	(6 734)	-	(6 734)	(735)	(7 469)
Effect from translation into presentation currency	-	-	-	-	(45 902)	(45 902)	(918)	(46 820)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6 734)</b>	<b>(45 902)</b>	<b>(52 636)</b>	<b>(1 653)</b>	<b>(54 289)</b>
<b>Balance at 31 December 2017</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>857 723</b>	<b>(1 099 825)</b>	<b>75 756</b>	<b>8 765</b>	<b>84 521</b>
<b>Balance at 1 January 2018</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>857 723</b>	<b>(1 099 825)</b>	<b>75 756</b>	<b>8 765</b>	<b>84 521</b>
Adjustments on initial application of IFRS 9 (net of tax)	-	-	-	(3 470)	-	(3 470)	-	(3 470)
<b>Adjusted balance at 1 January 2018</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>854 253</b>	<b>(1 099 825)</b>	<b>72 286</b>	<b>8 765</b>	<b>81 051</b>
<b>Comprehensive income</b>								
Loss for the year	-	-	-	(54 536)	-	(54 536)	(1 258)	(55 794)
Effect from translation into presentation currency	-	-	-	-	17 490	17 490	424	17 914
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(54 536)</b>	<b>17 490</b>	<b>(37 046)</b>	<b>(833)</b>	<b>(37 880)</b>
<b>Balance at 31 December 2018</b>	<b>836</b>	<b>115 858</b>	<b>201 164</b>	<b>799 717</b>	<b>(1 082 335)</b>	<b>35 240</b>	<b>7 932</b>	<b>43 172</b>

- (1) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium can only be used by the Company in (a) paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; (b) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (c) providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the Company.
- (2) Companies incorporated in Cyprus which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defense of the Republic Law, during the year after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 17% for the tax year 2014 and thereafter will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the owners.
- The above requirements of the Law are not applied in the case of the Company due to the fact that its owners are not residents in Cyprus for tax purposes.

The notes on pages 17 to 90 form an integral part of these consolidated financial statements.



## AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Consolidated statement of cash flows**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
*(in USD thousand, unless otherwise stated)*

	Note	for the year ended	
		31 December 2018	31 December 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax		(55 216)	(10 780)
Adjustments for:			
Depreciation of property, plant and equipment	5	14 703	15 411
Change in allowance for irrecoverable amounts		9 185	(4 488)
Loss/(gain) on disposal of current assets	27	1 724	(31)
Loss on disposal of non current assets	27	63	30
Impairment of current assets	27	330	138
Effect of fair value adjustments on biological assets	6	(9 843)	3 108
Gains realised from accounts payable written-off	27	(102)	(400)
Amortization of deferred income on government grants		(89)	(91)
Discount bonds amortization		2 349	2 304
Discount on VAT government bonds amortization		(689)	(1 088)
Interest income		(510)	(894)
Interest payable on loans and bonds		28 865	31 327
Income from received government grants VAT		-	(19 151)
Gain on derecognition of financial assets measured at amortised cost		(11 929)	-
Recovery of previously impaired assets		(1 767)	-
Losses/(income) on exchange		9 209	(14 537)
<b>Operating profit before working capital changes</b>		<b>(13 717)</b>	<b>858</b>
Increase in trade receivables		(4 128)	(4 023)
Decrease in prepayments and other current assets		3 455	8 843
Decrease/(increase) in taxes recoverable and prepaid		2 901	(6 250)
Decrease in inventories		35 989	4 026
Decrease in deferred income		-	(1)
Increase/(decrease) in trade payables		11 773	(306)
Increase in biological assets		(22 676)	(1 579)
Decrease in finance leases		-	(3)
Increase in other accounts payable		4 249	6 316
<b>Cash generated from operations</b>		<b>17 848</b>	<b>7 881</b>
Interest paid		(332)	(3 504)
Income tax paid		(73)	(19)
<b>Net cash generated from operating activities</b>		<b>17 443</b>	<b>4 357</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments and receipts - property, plant and equipment		(15 022)	(1 585)
Proceeds from sale of non-current assets		-	-
Interest received		637	1 032
<b>Net cash used in investing activities</b>		<b>(14 385)</b>	<b>(553)</b>

The notes on pages 17 to 90 form an integral part of these consolidated financial statements.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

**Consolidated statement of cash flows (cont.)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
*(in USD thousand, unless otherwise stated)*

	Note	for the year ended	
		31 December 2018	31 December 2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of loans		-	-
Interest paid for bonds issued		-	-
<b>Net cash used in financing activities</b>		-	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>3 057</b>	<b>3 804</b>
Cash and cash equivalents at 1 January		18 242	12 570
Adjustments on initial application of IFRS 9 (net of tax)		(1 166)	-
Effect from translation into presentation currency		170	1 868
<b>Cash and cash equivalents as at 31 December</b>	12	<b>20 304</b>	<b>18 242</b>

The notes on pages 17 to 90 form an integral part of these consolidated financial statements.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**1. General information**

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together with the Company referred to as the “Group”).

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

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

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

The Group's activities cover all the links of the value chain: from production of combined feed, maintenance and breeding of chickens to production and sale of eggs and egg products. As at 31 December 2018 the production facilities of the Group include 32 poultry facilities (consisting of 19 egg laying farms, 10 farms for growing young laying hens and 3 breeder farms), 6 fodder mills, 3 long-term egg storage facilities and 1 plant for manufacture of egg products. This vertically-integrated structure of the Group allows processing of approximately 37% of its own fodder. The Group's activities cover almost all the territory of Ukraine. Due to the operating environment in Ukraine, the companies of the Group which have been affected and are not operational are described in note 38 to the consolidated financial statements.

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

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**1. General information (cont.)**

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

Company name	Principal Activity	Country of registration	Ownership interest (%) 31 December 2018	Ownership interest (%) 31 December 2017	
PJSC Agroholding Avangard	Keeping of technical laying hen, production and selling of eggs	Ukraine	98,00%	98,00%	
LLC Yuzhnaya - Holding		Ukraine	100,00%	100,00%	
PPB LLC Pitysecompleks		Ukraine	100,00%	100,00%	
PSPC Interbusiness		Ukraine	100,00%	100,00%	
SC Avangard-Agro of PJSC Agroholding Avangard	Incubation (production and sale of day-old chick), farming of young poultry for sale	Ukraine	98,00%	98,00%	
SC Ptakhohospodarstvo Donetske of PSPC Interbusiness		Ukraine	100,00%	100,00%	
LLC Slovyany		Ukraine	90,00%	90,00%	
SC Ptakhohospodarstvo Lozuvatske of Avangardco Investments Public Limited		Ukraine	100,00%	100,00%	
SC Zorya of PJSC Agroholding Avangard		Ukraine	98,00%	98,00%	
SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo ChervoniyPrapor		Ukraine	98,00%	98,00%	
SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding		Ukraine	100,00%	100,00%	
SC Ptakhogopodarstvo Volnovaske of PSPC Interbusiness		Ukraine	100,00%	100,00%	
SC Ptakhohospodarstvo Chornobaivske of PJSC Agroholding Avangard		Ukraine	98,00%	98,00%	
LLC Rohatyn-Korm		Production and selling of animal feed	Ukraine	100,00%	100,00%
PJSC Trade Avangard Agro (PJSC Vuhlehirskyi Eksperementalny Kombikormoviy Zavod)			Ukraine	100,00%	100,00%
PJSC Volnovaskyi Kombinat Khliboproduktiv			Ukraine	99,00%	99,00%
LLC Kamyanets-Podilsky Kombikormoviy Zavod	Ukraine		98,00%	98,00%	
LLC Pershe Travnaya Kombikormoviy Zavod	Ukraine		98,00%	98,00%	
LLC Imperovo Foods	Processing of eggs and selling of egg products	Ukraine	96,00%	96,00%	
LLC Agrarnyi Holding Avangard	Rendering services under guarantee agreements	Ukraine	100,00%	100,00%	
LLC Torgivenlniy Dim Avangard	Rental services	Ukraine	99,00%	99,00%	
LLC "GENERAL KONSTRAKSHYN"	Assets holding companies	Ukraine	98,00%	98,00%	
LLC "LOHISTYK AGROTRADE"		Ukraine	100,00%	100,00%	
LLC "REMTREYDSTANDART"		Ukraine	98,00%	98,00%	
LLC "COMPANY NEW REGION"		Ukraine	98,00%	98,00%	
LLS "PRIME LEADER"		Ukraine	98,00%	98,00%	
LLC "CITY REGION"		Ukraine	98,00%	98,00%	
LLC "FORVARDTRANS"		Ukraine	98,00%	98,00%	
LLC "UNITED LOHISTYK"		Ukraine	98,00%	98,00%	
LLC "AGROTRADE BUSINESS"		Ukraine	98,00%	98,00%	
LLC "KOMERTSBUDPLAST"		Ukraine	98,00%	98,00%	
LLC "AGROMASH-ZAHID"		Ukraine	98,00%	98,00%	
LLC "STC-INVESTMENTS"		Ukraine	98,00%	98,00%	
LLC "TRANSMAGISTRAL"		Ukraine	93,00%	93,00%	

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**1. General information (cont.)**

The parent company of the Group is AvangardCo Investments Public Limited, registered in Cyprus, with an issued share capital of 6 387 185 ordinary shares as at 31 December 2018 with nominal value of € 0,10 per share.

The shares were distributed as follows:

Owner	31 December 2018		31 December 2017	
	Number of shares	Ownership interest (%)	Number of shares	Ownership interest (%)
Omtron Limited	1 848 575	28,9%	1 848 575	28,9%
Tanchem Limited	926 280	14,5%	926 280	14,5%
Mobco Limited	1	-	1	-
BNY (Nominees) Limited	1 437 500	22,5%	1 437 500	22,5%
UkrLandFarming Plc	2 174 825	34,1%	2 174 825	34,1%
Other	4	-	4	-
	<b>6 387 185</b>	<b>100,0%</b>	<b>6 387 185</b>	<b>100,0%</b>

As at 31 December 2018 and 31 December 2017 the interests in Omtron Limited and Tanchem Limited beneficially owned by UkrLandFarming Plc were as follows:

	Ownership interest (%) as at 31 December 2018	Ownership interest (%) as at 31 December 2017
Omtron Limited	100%	100%
Tanchem Limited	100%	100%

As at 31 December 2018 and 31 December 2017 the direct interests in Mobco Limited and UkrLandFarming Plc beneficially owned by Oleg Bakhmatyuk ("the beneficial owner" hereinafter) were as follows:

	Ownership interest (%) as at 31 December 2018	Ownership interest (%) as at 31 December 2017
Mobco Limited	100%	100%
UkrLandFarming Plc	95%	95%

**2. Basis of preparation**

**2.1 Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. and are for the year ended 31 December 2018.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 3.1.

**2.2 Basis of measurement**

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**2. Basis of preparation (cont.)****2.3 Functional and presentation currency**

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

**2.4 Going concern basis**

These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The Board of Directors and Management of the Group are making every effort to implement their targets and strategy despite the challenging conditions in the domestic and export markets. Additionally they are closely monitoring the Group's cash flows and capital base position and have reviewed the current situation and environment of the Group as described in note 38 to the consolidated financial statements.

As at 31 December 2018 the Group had overdue principal and interest payments and breached covenants of debt agreements with most banks and the Eurobonds. Also on 29 October 2018 the Eurobonds matured and the Group did not proceed to repay any amounts. The Group continue its constructive negotiations with banks and representatives from the Eurobond holders with a positive intent to reach an agreement with acceptable terms for both parties that will ensure the strengthening of the financial position of the Group maximising its potential for strong returns in a world economy that is returning to a more positive growth potential compared with a rather stagnant past few years. These events indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

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

For the next 12 months the management is making all relevant efforts to improve both the liquidity but also the profitability and capital base of the Group.

**2.5 Standards and interpretations**

As from 1 January 2018, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. This adoption did not have a material effect on the condensed consolidated financial statements of the Group except for the adoption of IFRS 9 Financial Instruments (see note 3.1 (b)).

The following Standards, Amendments to Standards and Interpretations have been issued by the International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2018. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

#### 2. Basis of preparation (cont.)

##### 2.5 Standards and interpretations (cont.)

###### (i) Standards and Interpretations adopted by the EU

- IAS 28 (Amendments) “Long-term Interest in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2019)  
The amendments clarify that an entity applies IFRS 9 “Financial Instruments”, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The Group is currently evaluating the expected impact of adopting these amendments on its financial statements.
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).  
IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the chosen tax treatment, on the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty being either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and the potential impact of uncertainties that are not reflected.
- IFRS 9 (Amendments) “Prepayment Features with Negative Compensation” (effective for annual periods beginning on or after 1 January 2019)  
In October 2017, the IASB issued “Prepayment Features with Negative Compensation (Amendments to IFRS 9)”. The amendments address the issue that under pre-amended IFRS 9, financial assets with such features would probably not meet the SPPI criterion and as such would be measured at fair value through profit or loss. The IASB believes that this would not be appropriate because measuring them at amortised cost provides useful information about the amount, timing and uncertainty of their future cash flows. Financial assets with these prepayment features can therefore be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The final amendments also contain a clarification in the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Based on the clarification, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019).  
IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard introduces a single, on-balance sheet lease accounting model for lessees. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The previous distinction between operating and finance leases is removed for lessees. Instead, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**2. Basis of preparation (cont.)**

**2.5 Standards and interpretations (cont.)**

**(i) Standards and Interpretations adopted by the EU (cont.)**

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases of buildings, equipment for biological assets and vehicles. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to USD 1 128 thousand, on an undiscounted basis.

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

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

- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021).  
In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.
- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019)  
In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:
  - IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - IAS 12 “Income Taxes”: the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
  - IAS 23 “Borrowing Costs”: the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.



## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

#### 2. Basis of preparation (cont.)

##### 2.5 Standards and interpretations (cont.)

###### (ii) Standards and Interpretations not adopted by the EU (cont.)

- IAS 19 (Amendments) “Plan Amendment, Curtailment or Settlement” (effective for annual periods beginning on or after 1 January 2019)  
In February 2018, the IASB issued amendments to the guidance in IAS 19 “Employee Benefits”, in connection with accounting for planned amendments, curtailments and settlements.
- “Amendments to References to the Conceptual Framework in IFRS Standards” (effective for annual periods beginning on or after 1 January 2020)  
In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised “Conceptual Framework for Financial Reporting” (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework’s principles have implications for how and when assets and liabilities are recognised and derecognized in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the “practical ability” approach to liabilities”. To assist companies with the transition, the IASB issued a separate accompanying document “Amendments to References to the Conceptual Framework in IFRS Standards”. This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.
- IFRS 3 “Business Combinations” (amendments): Definition of a Business (effective for annual periods beginning on or after 1 January 2020)  
The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.
- IAS 1 and IAS 8 (amendments): Definition of Material (effective for annual periods beginning on or after 1 January 2020)  
The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendments include definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

  - Old definition: Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements (IAS 1 Presentation of Financial Statements).
  - New definition: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
- IFRS 10 (Amendments) and IAS 28 (Amendments) “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (effective date postponed indefinitely)  
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**2. Basis of preparation (cont.)**

**2.5 Standards and interpretations (cont.)**

**(ii) Standards and Interpretations not adopted by the EU (cont.)**

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

**3. Significant accounting policies**

The following accounting policies have been applied consistently for all the years presented in these consolidated financial statements, except changes in accounting policies which are described in Note 3.1. The accounting policies have been consistently applied by all companies of the Group.

**3.1 Changes in significant accounting policies**

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* (see (a)) and IFRS 9 *Financial Instruments* (see (b)) from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

The effect of initially applying these standards is mainly attributed to increase in impairment losses recognised on financial assets (see (b) ii) below).

*(a) IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Group's adoption of IFRS 15 does not have any impact on the Group's consolidated financial statements. Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

*(b) IFRS 9 Financial Instruments*

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

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the balance of retained earnings:

<b>Retained earnings</b>	<b>USD'000</b>
Adjustments on initial application of IFRS 9 (net of tax):	
Trade and other receivables recognition of expected credit losses	1 030
Cash and cash equivalents recognition of expected credit losses	1 190
Provision on guarantees	1 250
<b>Impact at 1 January 2018</b>	<b>3 470</b>

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)**

**3.1 Changes in significant accounting policies (cont.)**

*(b) IFRS 9 Financial Instruments (cont.)*

*i) Classification and measurement of financial assets and financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

- *Financial assets at FVTPL*: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
- *Financial assets at amortised cost*: these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see ii) below), interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

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**3. Significant accounting policies (cont.)**

**3.1 Changes in significant accounting policies (cont.)**

*(b) IFRS 9 Financial Instruments (cont.)*

*i) Classification and measurement of financial assets and financial liabilities (cont.)*

- *Debt investments at FVOCI*: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

- *Equity investments at FVOCI*: these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

*in USD thousands*

Financial assets	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasu- rement	New carrying amount under IFRS 9
VAT government bonds	1)	Held-to-maturity	Amortised cost	2 840	-	2 840
Trade and other receivables	2)	Loans and receivables	Amortised cost	54 315	(1 030)	53 285
Cash and cash equivalents		Loans and receivables	Amortised cost	18 242	(1 190)	17 052
<b>Total financial assets</b>				<b>75 397</b>	<b>(2 220)</b>	<b>73 177</b>

1) VAT government bonds that were previously classified as held-to-maturity are now classified at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

2) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of 1 030 in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial liabilities as at 1 January 2018.

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**3. Significant accounting policies (cont.)**

**3.1 Changes in significant accounting policies (cont.)**

*(b) IFRS 9 Financial Instruments (cont.)*

*ii) Impairment of financial assets*

*in USD thousands*

<b>Financial liabilities</b>	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying amount under IAS 39</b>	<b>New carrying amount under IFRS 9</b>
Long-term loans	Other financial liabilities	Other financial liabilities	134 107	134 107
Short-term bond liabilities	Amortised cost	Amortised cost	231 612	231 612
Trade payables	Other financial liabilities	Other financial liabilities	2 298	2 298
<b>Total financial assets</b>			<b>368 017</b>	<b>368 017</b>

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables, cash and cash equivalents, and VAT government bonds.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs; these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs; these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs by following the simplified approach of IFRS 9.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period which the Group is exposed to credit risk.

*Measurement of ECLs*

Reference to note 4.6

*Presentation of impairment*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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**3. Significant accounting policies (cont.)**

**3.1 Changes in significant accounting policies (cont.)**

*(b) IFRS 9 Financial Instruments (cont.)*

*ii) Impairment of financial assets (cont.)*

Impairment losses related to trade and other receivables are presented separately in the statement of profit or loss and OCI. As a result, the Group reclassified impairment loss amounting to USD 9 185 thousand, recognised under IAS 39, from ‘other operating expenses’ to ‘impairment loss on trade and other receivables, net’ in the statement of profit or loss and OCI for the year ended 31 December 2018.

*Impact of the new impairment model*

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group applied the simplified approach of impairment. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

*in USD thousands*

<b>Loss allowance at 31 December 2017 under IAS 39</b>	<b>48 548</b>
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	1 030
Cash and cash equivalents as at 31 December 2017	1 190
<b>Loss allowance at 1 January 2018 under IFRS 9</b>	<b>50 768</b>

*Trade receivables*

The following analysis provides further detail about the calculation of ECLs related to trade receivables on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECL as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past year. The Group performed the calculation of ECL rates separately for supermarkets and for other customers (note 37).

Changes during the period to the Group's exposure to credit risk are described in note 37.

*iii) Transition*

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amount of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The determination of the business model within which a financial asset is held was assessed on the basis of the facts and circumstances that existed at the date of initial application.

If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

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### 3. Significant accounting policies (cont.)

#### 3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company AvangardCo Investments Public Limited and the financial statements of the companies controlled by the Company as at 31 December 2018.

##### *Transactions under common control*

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

##### *Subsidiaries*

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

##### *Loss of control*

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

##### *Combinations of businesses under common control*

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

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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**3. Significant accounting policies (cont.)****3.2 Basis of consolidation (cont.)***Acquisitions of business not under common control*

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

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

*Transactions eliminated on consolidation*

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

*Non-controlling interests (NCI)*

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

*Business combinations and goodwill*

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

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

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

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

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



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**3. Significant accounting policies (cont.)**

**3.2 Basis of consolidation (cont.)**

*Business combinations and goodwill (cont.)*

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

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

**3.3 Foreign currency translation**

*(a) Transactions and balances*

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

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

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

<b>Currency</b>	<b>31 December 2018</b>	<b>Weighted average for the year ended 31 December 2018</b>	<b>31 December 2017</b>	<b>Weighted average for the year ended 31 December 2017</b>
US dollar to Ukrainian Hryvnia	27,6883	27,2016	28,0672	26,5947
Euro	0,8331	0,8465	0,8379	0,8861

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

*(b) Presentation currency*

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

- (1) At each reporting date of financial statements all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at that reporting date;
- (2) Income and expenses are translated at the average exchange rates (except for the cases when such average exchange rate is not a reasonably approximate value reflecting cumulative influence of all exchange rates prevailing at the date of transaction, in which case income and expenses are translated at the exchange rates at the date of transaction);
- (3) All exchange differences are recognised in other comprehensive income.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

### 3. Significant accounting policies (cont.)

#### 3.4 Property, plant and equipment

##### *Initial recognition of property, plant and equipment (“PPE”)*

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

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

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

##### *Expenses after the initial recognition of property, plant and equipment*

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

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

##### *Subsequent measurement of property, plant and equipment*

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

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

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

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

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

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

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

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

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### 3. Significant accounting policies (cont.)

#### 3.4 Property, plant and equipment (cont.)

##### *Derecognition*

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

##### *Impairment*

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

##### *Assets under construction and uninstalled equipment*

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

### 3.5 Financial instruments

#### *Policy applicable from 1 January 2018*

##### *(i) Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

##### *(ii) Classification and subsequent measurement:*

##### *Financial assets*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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**3. Significant accounting policies (cont.)**

**3.5 Financial instruments (cont.)**

***Policy applicable from 1 January 2018 (cont.)***

*(ii) Classification and subsequent measurement (cont.):*

*Financial assets (cont.)*

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Financial assets – Business model assessment:*

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

### 3. Significant accounting policies (cont.)

#### 3.5 Financial instruments (cont.)

##### *Policy applicable from 1 January 2018 (cont.)*

*(ii) Classification and subsequent measurement (cont.):*

##### *Financial assets (cont.)*

*Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:*

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

*Financial assets – Subsequent measurement and gains and losses:*

*Financial assets at FVTPL:* These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

*Financial assets at amortised cost:* These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Debt investments at FVOCI:* These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

*Equity investments at FVOCI:* These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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**3. Significant accounting policies (cont.)****3.5 Financial instruments (cont.)*****Policy applicable from 1 January 2018 (cont.)***

*(ii) Classification and subsequent measurement (cont.):*

***Financial liabilities – Classification, subsequent measurement and gains and losses***

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

*(iii) Derecognition*

***Financial assets***

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

***Financial liabilities***

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

*(iv) Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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**3. Significant accounting policies (cont.)****3.5 Financial instruments (cont.)*****Policy applicable before 1 January 2018******(i) Non-derivative financial assets***

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

***(a) Loans and accounts receivable***

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise of cash and cash equivalents and trade and other accounts receivable.

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

***(b) Available for sale financial assets***

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

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

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

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)****3.5 Financial instruments (cont.)*****Policy applicable before 1 January 2018 (cont.)****(c) Held-to-maturity investments*

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

*Initial recognition*

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

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

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

*Principles of fair value measurement*

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

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

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

*Subsequent measurement*

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



**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)****3.5 Financial instruments (cont.)*****Policy applicable before 1 January 2018 (cont.)***

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

*(c) Held-to-maturity investments (cont.)*

*Subsequent measurement (cont.)*

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

*Impairment of financial assets*

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

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

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for a financial asset measured at amortised cost at both a specific asset and collective level. All individually significant assets are measured for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risks characteristics.

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

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED**

**Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)**

**3.5 Financial instruments (cont.)**

***Policy applicable before 1 January 2018 (cont.)***

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

*(c) Held-to-maturity investments (cont.)*

*Derecognition*

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

*(ii) Non-derivative financial liabilities*

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

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

*(a) Loans and borrowings*

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

*Initial recognition*

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

*Subsequent measurement*

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

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

*Derecognition*

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
FOR THE YEAR ENDED 31 DECEMBER 2018**

*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)****3.6 Bonds***Initial recognition*

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

*Subsequent measurement*

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

*Derecognition*

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

**3.7 Inventories**

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

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

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

*Impairment of inventories*

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

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

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

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

### 3. Significant accounting policies (cont.)

#### 3.8 Biological assets

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

- replacement poultry (non-current asset);
  - commercial poultry (current asset);
  - other biological assets (current asset);
- (a) Non current assets - assets with useful life of more than a year. Age of livestock poultry is between 1 – 194 days old.
- (b) Current assets - assets with useful life within one year. Age of livestock poultry is between 195 – 560 days old.

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

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

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

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

#### *Determination of the fair value of biological assets*

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

#### *Determination of the fair value of agricultural produce*

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

#### 3.9 Cash and cash equivalents

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

#### 3.10 Impairment of non-current assets

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

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

### 3. Significant accounting policies (cont.)

#### 3.10 Impairment of non-current assets (cont.)

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

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

#### 3.11 Value added tax (VAT)

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

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

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

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

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

- receivables and payables that are stated including the value added tax.

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

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

#### 3.12 Income tax

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)****3.12 Income tax (cont.)***Current tax*

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

*Deferred tax*

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

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

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

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

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

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

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

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

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)****3.13 Revenue recognition*****Policy applicable from 1 January 2018***

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over goods or services to a customer.

Contracts with customers are easily identifiable as they are formalized in a written form, with all provisions for rights/responsibilities of the parties to it being clearly stated. Contracts are based on templates approved by our legal team to ensure their enforceability. Contracts have fixed duration. Modifications to the existing contracts may only be in a written form and are approved by our legal team. Modifications are applied prospectively. Contractual terms and conditions used are standard for our industry.

Our performance obligations under the sales contracts include the delivery of goods (eggs and egg powder) which are distinct and clearly stated in contracts. Sales contracts do not include post-sale service, guaranty elements or post-sale discounts used. Our performance obligation is completed when goods are delivered to a customer. Once goods are accepted by a customer we have no further control of the goods. No consignment or similar arrangements are used. Payments for goods are not contingent on any further events following the goods delivery.

***Policy applicable before 1 January 2018***

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

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

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

**3.14 Finance income/expense**

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

**3.15 Leases**

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

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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*(in USD thousand, unless otherwise stated)*

**3. Significant accounting policies (cont.)****3.15 Leases (cont.)***Group as a lessee*

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

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

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

*Group as a lessor*

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

**3.16 Distribution of dividends**

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

**3.17 Borrowing costs**

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

**3.18 Government grants***Recognition of government grants*

The Group recognises government grants when received.

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

- All grants, compensating the expenses of the preceding periods, shall be recognised by the Group in full in the period of their receipt as other operating income;



## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

### 3. Significant accounting policies (cont.)

#### 3.18 Government grants (cont.)

##### *Recognition of government grants (cont.)*

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

##### *Accounting for government grants for agricultural activities*

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

##### *Return of the government grants*

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

#### 3.19 Contingent assets and liabilities

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

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

#### 3.20 Provisions

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

#### 3.21 Share capital

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

**AVANGARDCO INVESTMENTS PUBLIC LIMITED****Notes to the consolidated financial statements  
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**3. Significant accounting policies (cont.)****3.22 Operating segments**

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

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

**3.23 Events after the reporting period**

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

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

**4. Significant accounting judgements and estimates**

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

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

*Assumptions and estimation uncertainties*

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

**4.1 Basis of consolidation (transactions under common control)**

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

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

*(in USD thousand, unless otherwise stated)*

#### 4. Significant accounting judgements and estimates (cont.)

##### 4.2 Fair value less costs to sell of biological assets

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

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

##### 4.3 Useful lives of property, plant and equipment

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

##### 4.4 Impairment of non-financial assets

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

##### 4.5 VAT recoverable

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

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

##### 4.6 Impairment of financial assets

###### *Trade and other receivables*

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

###### ***Policy applicable from 1 January 2018***

The Group recognizes a loss allowance based on the expected credit loss using the simplified approach.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 4. Significant accounting judgements and estimates (cont.)

##### 4.6 Impairment of financial assets (cont.)

*Trade and other receivables (cont.)*

##### **Policy applicable from 1 January 2018 (cont.)**

Life time ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. ECLs are a probability-weighted estimate of credit losses. Credit losses are calculated based on Probability of Defaults (PD) and Loss Given Defaults (LGD).

The receivables are grouped into four categories: trade receivables from supermarkets; other trade and other accounts receivables, trade export receivables, and receivables from related parties.

The trade receivables from supermarkets ECL's are calculated using rating-based approach to calculate the ECL. The rating is assigned to each counterparty based on its scoreboard. The rating is updated on an annual basis.

Other trade and other accounts receivables ECL's are calculated based on a provision matrix with the ageing of receivables as a basis, which is calculated with the flow rate method using the historical balances.

The trade export receivables uses 0% ECL approach as based on historical data they are repaid within the 180 days period according to the Procedure of foreign currency settlements, Act of Ukraine 185/94.

Related parties receivables are impaired at 0,02% rate as receivables with minimum credit loss risk.

##### **Policy applicable before 1 January 2018**

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

Group approach is used in calculating the impairment of receivables:

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

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

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

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

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**4. Significant accounting judgements and estimates (cont.)****4.6 Impairment of financial assets (cont.)**

*Cash and cash equivalents*

***Policy applicable from 1 January 2018***

The Group accrues provisions for cash and cash equivalents by calculating the ECL using a PD based on rating per Moody's agency to the banks and in the case where a bank has no rating, it uses the rating for the country, and LGD on the senior unsecured government bond.

***Policy applicable before 1 January 2018***

The Group did not accrue provisions in respect of cash and cash equivalents before 1 January 2018.

**4.7 Provision on guarantees**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

**4.8 Legal proceedings**

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

**4.9 Impairment of obsolete and surplus inventory**

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

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

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**4. Significant accounting judgements and estimates (cont.)****4.10 Deferred tax assets**

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

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

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

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

**4.11 Contingent liabilities**

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

**4.12 Measurement of fair values**

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

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

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

Significant valuation issues are reported to the Board of Directors.

## AVANGARDCO INVESTMENTS PUBLIC LIMITED

### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 4. Significant accounting judgements and estimates (cont.)

##### 4.12 Measurement of fair values (cont.)

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

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

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

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

##### 4.13 Ukrainian business environment

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

These events have led to the disappearance of economic links between Ukraine and the RF, the key export destination for many Ukrainian industries. Ukraine has lost control over large mining companies concentrated in the East of the country, which significantly decreased the inflow of foreign currency. Eventually, the national GDP has dropped, public finances have eroded, the national currency has suffered severe devaluation and the credit rating of the sovereign debt has continued to deteriorate. The newly elected Government of Ukraine had no financial power to avoid the economic downfall in years 2014-2015. Minimal international reserves and exhausted government accounts have forced the government to introduce administrative anti-crisis tools. The National Bank of Ukraine has introduced currency restrictions: conversion limits, the requirement to convert 70% of foreign currency revenue into national currency, abroad dividend payment ban, ban on early repayment of foreign loans, cash withdrawal limitations. Such restrictions have limited the abilities of Ukrainian companies and banks to lend and borrow money on domestic and international markets.

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

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**4. Significant accounting judgements and estimates (cont.)****4.13 Ukrainian business environment (cont.)**

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

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



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**5. Property, plant and equipment**

	Land	Buildings and structures	Machinery and equipment	Equipment for biological assets	Vehicles	Other equipment	Assets under construction-in- progress and uninstalled equipment	Total
<b>Cost</b>								
<b>Balance at 1 January 2018</b>	<b>1 003</b>	<b>210 105</b>	<b>36 206</b>	<b>100 739</b>	<b>2 304</b>	<b>1 219</b>	<b>56 752</b>	<b>408 328</b>
Acquisitions	-	12 406	709	863	135	126	707	<b>14 946</b>
Disposals	-	(39)	(73)	(19)	(15)	(20)	(14 801)	<b>(14 968)</b>
Recovery of previously impaired assets	-	1 323	193	1 295	11	5	4	<b>2 830</b>
Internal transfers	-	22 336	356	242	4	7	(22 945)	<b>0</b>
Foreign currency translation	14	2 243	474	1 336	29	15	734	<b>4 846</b>
Reclassification	-	(56)	27	37	0	(9)	-	<b>0</b>
<b>Balance at 31 December 2018</b>	<b>1 017</b>	<b>248 318</b>	<b>37 893</b>	<b>104 493</b>	<b>2 469</b>	<b>1 342</b>	<b>20 451</b>	<b>415 981</b>
<b>Accumulated depreciation</b>								
<b>Balance at 1 January 2018</b>	<b>-</b>	<b>31 589</b>	<b>9 159</b>	<b>30 445</b>	<b>1 522</b>	<b>973</b>	<b>-</b>	<b>73 688</b>
Depreciation charge	-	6 756	2 309	5 404	146	88	-	<b>14 703</b>
Depreciation eliminated on disposal	-	(8)	(52)	(12)	(13)	(20)	-	<b>(104)</b>
Recovery of previously impaired assets	-	659	84	399	11	4	-	<b>1 157</b>
Foreign currency translation	-	302	85	313	21	12	-	<b>733</b>
Reclassification	-	(6)	(9)	24	0	(9)	-	<b>(0)</b>
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>39 292</b>	<b>11 576</b>	<b>36 574</b>	<b>1 686</b>	<b>1 049</b>	<b>-</b>	<b>90 177</b>
<b>Net book value</b>								
<b>Balance at 31 December 2018</b>	<b>1 017</b>	<b>209 026</b>	<b>26 317</b>	<b>67 920</b>	<b>782</b>	<b>293</b>	<b>20 451</b>	<b>325 805</b>

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**5. Property, plant and equipment (cont.)**

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

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**5. Property, plant and equipment (cont.)**

As at 31 December 2018 and 31 December 2017 the property, plant and equipment that was used as security for long-term and short-term loans was as follows:

	<b>Carrying value of security as at</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Buildings and structures	41 101	32 566
Machinery and equipment	784	945
Equipment for biological assets	21 470	22 079
Land	1 000	986
	<b>64 354</b>	<b>56 576</b>

**6. Biological assets**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Non-current biological assets</b>		
Replacement poultry	30 316	3 732
	<b>30 316</b>	<b>3 732</b>
<b>Current biological assets</b>		
Commercial poultry	21 796	16 160
	<b>21 796</b>	<b>16 160</b>
<b>Total</b>	<b>52 112</b>	<b>19 892</b>

a) Commercial poultry and replacement poultry were as follows:

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Number, thousand head</b>	<b>Fair value</b>	<b>Number, thousand head</b>	<b>Fair value</b>
Loman	6 862	25 532	9 430	18 605
Novogen	4 974	21 376	99	1 287
Decalb	907	2 478	-	-
Tetra	688	2 726	-	-
	<b>13 431</b>	<b>52 112</b>	<b>9 529</b>	<b>19 892</b>

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**6. Biological assets (cont.)**

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

<b>Balance at 1 January 2017</b>	<b>22 028</b>
Acquisitions	40 926
Increase in value as a result of increase in weight/number	111 170
Net change in fair value	(3 108)
Decrease in value resulting from assets disposal	(36 754)
Effect from translation into presentation currency	(607)
Decrease in value resulting from hens slaughtering	(113 535)
Other changes	(228)
<b>Balance at 31 December 2017</b>	<b>19 892</b>
<b>Balance at 1 January 2018</b>	<b>19 892</b>
Acquisitions	30 358
Increase in value as a result of increase in weight/number	102 417
Net change in fair value	9 843
Decrease in value resulting from assets disposal	(17 264)
Effect from translation into presentation currency	(299)
Decrease in value resulting from hens slaughtering	(92 650)
Other changes	(185)
<b>Balance at 31 December 2018</b>	<b>52 112</b>

Due to the absence of an active market for laying hen in Ukraine to determine the fair value of biological assets, the Group uses the discounted net present value of future net cash flows expected from the biological assets. As a discount rate, the rate of 20,54% prevailing as at 31 December 2018 was applied (for the year ended 31 December 2017: 24,66%).

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

*Regulatory and environmental risk*

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

**7. Investments measured at amortized cost**

Investments measured at amortized cost as at 31 December 2018 and 31 December 2017 were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
VAT government bonds	-	3 712
Discount VAT government bonds	-	(872)
	<u>-</u>	<u>2 840</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
Coupon receivable	131	260

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

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**8. Taxes recoverable and prepaid**

Taxes recoverable and prepaid as at 31 December 2018 and 31 December 2017 were as follows:

	Note	<u>31 December 2018</u>	<u>31 December 2017</u>
VAT settlements	a)	18 761	17 807
Other taxes prepaid		39	42
		<u><b>18 800</b></u>	<u><b>17 849</b></u>

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

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

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

**9. Inventories**

Inventories as at 31 December 2018 and 31 December 2017 were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Raw and basic materials	7 506	13 952
Work-in-progress	90	361
Agricultural produce	1 116	2 292
Finished goods	3 948	30 126
Package and packing materials	3 570	5 366
Goods for resale	213	1 357
Other inventories	3 254	2 847
	<u><b>19 697</b></u>	<u><b>56 301</b></u>

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

The Group produced shell eggs in the quantity of 2 625 490 692 (2017: 2 399 489 108 items) which have fair value amounted to USD 150 571 thousand (2017: USD 105 562 thousand).

**10. Trade accounts receivable, net**

Trade accounts receivable as at 31 December 2018 and 31 December 2017 were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade receivables-gross	64 198	92 113
Provision for doubtful debts	(9 714)	(46 737)
	<u><b>54 484</b></u>	<u><b>45 376</b></u>

As at 31 December 2018 an amount of USD 19 826 thousand or 36,4% of the total carrying value of trade accounts receivable is due from the single most significant debtor (as at 31 December 2017—see note 36).

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

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

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**11. Prepayments and other current assets, net**

Prepayments and other current assets as at 31 December 2018 and 31 December 2017 were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Prepayments	10 776	2 689
Provision for doubtful debts	(1 763)	(1 812)
Other non-trade accounts receivable	4 162	4 349
Current portion of VAT bonds	3 556	3 713
	<u><b>16 731</b></u>	<u><b>8 939</b></u>

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

**12. Cash and cash equivalents**

Cash and cash equivalents as at 31 December 2018 and 31 December 2017 were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cash at banks	20 306	18 241
Cash in hand	1	1
Provision for cash and cash equivalents	(3)	-
<b>Cash and cash equivalents represented in consolidated statement of cash flows</b>	<u><b>20 304</b></u>	<u><b>18 242</b></u>

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

**13. Share capital**

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	Number of shares	Share capital, USD ths	Number of shares	Share capital, USD ths
<i>Authorised</i>				
Ordinary shares Euro 0,10 each	6 500 000	908	6 500 000	908
<i>Issued and fully paid</i>				
<b>Balance at 31 December</b>	<u><b>6 387 185</b></u>	<u><b>836</b></u>	<u><b>6 387 185</b></u>	<u><b>836</b></u>

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

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

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

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**14. Long-term loans**

Long-term loans as at 31 December 2018 and 31 December 2017 were as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Long-term bank loans in national currency	47 114	46 479
Long-term bank loans in foreign currency	84 104	87 628
<b>Total loans</b>	<b>131 218</b>	<b>134 107</b>
Commodity credit	320	316
	<b>131 538</b>	<b>134 423</b>
Current portion of non-current liabilities for bank loans in national currency	(47 114)	(4 045)
Current portion of non-current liabilities for bank loans in foreign currency	(84 104)	(87 628)
	<b>320</b>	<b>42 750</b>

a) As at 31 December 2018 and 31 December 2017 the long-term bank loans by maturities were as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Less than one year	131 218	91 673
From 1 to 2 years	-	6 528
From 2 to 3 years	-	6 528
From 3 to 4 years	-	6 528
From 4 to 5 years	-	22 848
Over 5 years	-	-
	<b>131 218</b>	<b>134 106</b>

b) As at 31 December 2018 and 31 December 2017 the long-term bank loans by currencies were as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Long-term bank loans in UAH	47 114	46 478
Long-term bank loans in EUR	84 104	87 628
	<b>131 218</b>	<b>134 106</b>

c) As at 31 December 2018 and 31 December 2017 the interest rates for long-term bank loans were as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Long-term bank loans denominated in UAH	12,5%-18%	12,5%-18%
Long-term bank loans in EUR	1,5%+EURIBOR- 2,7%+EURIBOR	1,5%+EURIBOR- 2,7%+EURIBOR

As at the end of the reporting period the Group had overdue payments for almost all of the long-term borrowings (including interest: see note 20) and was not in compliance with certain covenants. As a result, the relevant portion was classified as current until finalisation of the Group's Management negotiations with the banks with the expectation to agree on the restructuring of debt with favourable conditions for both parties.

d) Commodity credit in the amount of USD 320 thousand (2017: USD 316 thousand) is represented by a liability of the Group's companies, OJSC "Volnovahskyi Kombinat Khilboproduktiv" and OJSC "Ptakhoospodarstvo Chervonyi Prapor" for an interest-free budget loan received in the years 1995-1998 for the acquisition of agricultural products under a Government contract. In case of default after the maturity of the loan the Group's companies are subject to fine and, according to Ukrainian laws, is set equal to compulsory payments in the State budget of Ukraine, applying sanctions stipulated by the laws with regard to late payment of taxes and making of non-tax payments. The commodity credit does not have a maturity date.

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#### 14. Long-term loans (cont.)

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

#### 15. Bond liabilities

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

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

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

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

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

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

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

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



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**15. Bond liabilities (cont.)**

- weak micro-economic and macro-economic conditions in Ukraine, the Group's primary jurisdiction of operation and principal market, which adversely impacted demand and prices for the Group's products;
- the annexation of Crimea and the ongoing military conflict in the Donetsk and Lugansk regions of Ukraine;
- challenging conditions for exports as a result of continuing military/political disruption in certain of the Group's key export markets in the Middle East; and
- its inability to refinance existing indebtedness as a result of the continued weakness of the Ukrainian banking system and the unavailability of international capital markets to Ukrainian borrowers.

Currently the Company defaulted in paying the interest due under the Note (see note 20). Also on 29 October 2018 the Eurobonds matured and the Group did not proceed to repay any amounts.

The restructuring process will help the Company continue to maintain its assets and operations. Going forward the Company is planning to concentrate on operations while prudently managing liquidity and servicing its existing debt portfolio. The Company continues to be in discussions with various creditor groups.

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

**16. Securities**

Long-term loans (Note 14) as at 31 December 2018 and 31 December 2017 were secured on assets as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Buildings and structures	41 101	32 566
Machinery and equipment	784	945
Equipment for biological assets	21 470	22 079
Land	1 000	986
<b>Total</b>	<b><u>64 355</u></b>	<b><u>56 576</u></b>

As at 31 December 2018 and 31 December 2017 surety providers of the liabilities of UkrLandFarming Plc were as follows: LLC Imperovo Foods, PSPC Interbusiness, PJSC Agroholding Avangard (PJSC Ptakhohospodarstvo Chervonyi Prapor), LLC Slovyany.

**17. Current portion of non-current financial liabilities**

The current portion of non-current financial liabilities as at 31 December 2018 and 31 December 2017 was as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Trade and other payables</i>		
Deferred income (current portion)	88	87
<i>Financial liabilities</i>		
Current portion of non-current liabilities for bank loans in foreign currency	84 104	87 628
Current portion of non-current liabilities for bank loans in national currency	47 114	4 045
Dividends payable (current portion)	6 684	-
	<b><u>137 990</u></b>	<b><u>91 760</u></b>

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

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**18. Deferred tax assets and liabilities, income tax expense**

The principal components of deferred tax assets and liabilities before netting off on a company basis as at 31 December 2018 and 31 December 2017 were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>Influence of temporary differences on deferred tax assets</b>		
Property, plant and equipment, non-current assets	6 828	6 103
Provisions	1 136	2 255
<b>Total deferred tax assets</b>	<u>7 964</u>	<u>8 358</u>
<b>Influence of temporary differences on deferred tax liabilities</b>		
Deferred expenses	(1)	(4)
<b>Total deferred tax liabilities</b>	<u>(1)</u>	<u>(4)</u>
<b>Net deferred tax assets</b>	<u>7 963</u>	<u>8 354</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
Total deferred tax assets	7 964	8 662
Total deferred tax liabilities	(1)	(308)
<b>Net deferred tax assets</b>	<u>7 963</u>	<u>8 354</u>

**Principal components of income tax expense**

As at 31 December 2018 and 31 December 2017 the rate of income tax in Ukraine was equal to 18%.

	<u>31 December 2018</u>	<u>31 December 2017</u>
Current income tax	(57)	(74)
Deferred tax asset	(521)	3 385
<b>Income tax credit for the year</b>	<u>(578)</u>	<u>3 311</u>

**Reconciliation of deferred tax liabilities**

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>Balance as at 1 January</b>	8 354	5 312
Deferred tax credit	(521)	3 385
Effect of translation into presentation currency	130	(343)
<b>Balance as at 31 December</b>	<u>7 963</u>	<u>8 354</u>

Management of the Group expects, on the basis of forecast, that in next periods, entities which are payers of income tax, will be profitable.

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

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Accounting loss before tax	(55 216)	(10 780)
Less accounting profit of the companies being fixed agricultural tax payers	(6 035)	2 272
	<u>(61 251)</u>	<u>(8 508)</u>
Accounting loss of the companies being income tax payers at the rate 12,5%	(34 198)	(3 930)
Accounting loss of the companies being income tax payers at the rate 18%	(27 052)	(4 578)
	<u>(61 250)</u>	<u>(8 508)</u>
Income tax, taxable at the rate of 12,5%	(4 275)	(491)
Income tax, taxable at the rate of 18%	(4 869)	(824)
Tax effect of allowances and income not subject to tax	8 566	4 626
<b>Tax as per consolidated statement of profit or loss and other comprehensive income - credit</b>	<b>(578)</b>	<b>3 311</b>
<b>As at 1 January 2017</b>		<b>41</b>
Income tax accrued for the year		(74)
Income tax paid for the year		46
Effect of translation into presentation currency		22
<b>As at 31 December 2017/ 1 January 2018</b>		<b>35</b>
Income tax accrued for the year		(57)
Income tax paid for the year		73
Effect of translation into presentation currency		4
<b>As at 31 December 2018</b>		<b>55</b>

**19. Trade payables**

Trade payables as at 31 December 2018 and 31 December 2017 were as follows:

	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Trade payables		13 795	2 262
Short-term notes issued	a)	-	36
		<u><b>13 795</b></u>	<u><b>2 298</b></u>

a) As at 31 December 2018 and 31 December 2017 the short-term notes issued were represented by promissory, non interest-bearing, notes.

The exposure of the Group to liquidity risk in relation to trade payables is reported in note 37 to the consolidated financial statements.

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**20. Other accounts payable**

Other accounts payable as at 31 December 2018 and 31 December 2017 were as follows:

	Note	<b>31 December 2018</b>	<b>31 December 2017</b>
Accrued expenses for future employee benefits		1 401	441
Other accrued expenses		309	214
Wages and salaries and related taxes liabilities		1 713	809
Other taxes and compulsory payments liabilities	a)	180	154
Accounts payable for property, plant and equipment		48	124
Advances received from customers	b)	937	198
Interest payable on loans		20 042	10 955
Accrued coupon on bonds		31 757	14 249
Provision on guarantees	c)	1 296	-
Other payables	d)	3 379	1 844
		<b>61 062</b>	<b>28 989</b>

- a) Other taxes and compulsory payments liabilities mainly comprises of liabilities for VAT and community charges.
- b) Advances received from customers consist of prepayments for the sale of agriculture products and finished goods from buyers.
- c) As at 31 December 2018 and 31 December 2017 surety providers of the liabilities of UkrLandFarming Plc were as follows: LLC Imperovo Foods, PSPC Interbusiness, PJSC Agroholding Avangard, LLC Slovyany.
- d) Other payables consist of payables for electricity, gas, water, security services, lease and other.

The exposure of the Group to liquidity risk in relation to other accounts payable is reported in note 37 to the consolidated financial statements.

**21. Loss from operating activities**

Loss from operating activities is stated after (charging)/crediting the following items:

	Note	<b>for the year ended</b>	
		<b>31 December 2018</b>	<b>31 December 2017</b>
Depreciation of property, plant and equipment	5	(14 703)	(15 411)
(Loss)/profit on disposal of non current assets	27	(63)	(30)
Bad Debt recovered		(9 185)	4 488
Payroll and related expenses	31	(19 425)	(10 778)
Independent auditors' remuneration for statutory audit of annual accounts		(412)	(362)
		<b>(43 788)</b>	<b>(22 093)</b>

**22. Revenue**

Sales revenue for the year ended 31 December 2018 and 31 December 2017 was as follows:

	<b>for the year ended</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Revenue from finished goods	167 998	117 699
Revenue from goods sold	1 555	9 623
Revenue from services rendered	325	565
	<b>169 878</b>	<b>127 887</b>

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**22. Revenue (cont.)**

For the year ended 31 December 2018 USD 42 058 thousand (2017: USD 28 064 thousand) or 24,8% (2017: 21,9%) from the Group's revenue refers to the sales transactions carried out with one of the Group's clients (note 37).

**23. Cost of sales**

Cost of sales for the year ended 31 December 2018 and 31 December 2017 was as follows:

	Note	for the year ended	
		31 December 2018	31 December 2017
Cost of finished goods sold	24	(176 191)	(124 961)
Cost of goods sold		(1 389)	(9 561)
Cost of services rendered		(466)	(394)
		<b>(178 046)</b>	<b>(134 916)</b>

**24. Cost of sales by elements**

The cost of finished goods sold (Note 23) for the year ended 31 December 2018 and 31 December 2017 was as follows:

	Note	for the year ended	
		31 December 2018	31 December 2017
Raw materials		(138 369)	(97 630)
Payroll of production personnel and related taxes	31	(12 536)	(5 945)
Depreciation		(14 509)	(15 198)
Services provided by third parties		(10 698)	(6 086)
Other expenses		(79)	(102)
	23	<b>(176 191)</b>	<b>(124 961)</b>

Services provided by third parties consist of expenses for electricity, storage services, gas, water, current repairs of production premises, sanitary cleaning services, veterinary services and other.

**25. General administrative expenses**

General administrative expenses for the year ended 31 December 2018 and 31 December 2017 were as follows:

	Note	for the year ended	
		31 December 2018	31 December 2017
Salaries and wages of administrative personnel	31	(6 144)	(4 436)
Services provided by third parties		(2 626)	(3 278)
Depreciation		(107)	(98)
Repairs and maintenance costs		(143)	(104)
Tax expenses, except for income tax		(648)	(520)
Material usage		(443)	(319)
Other expenses		(318)	(200)
		<b>(10 429)</b>	<b>(8 955)</b>

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**26. Distribution expenses**

Distribution expenses for the year ended 31 December 2018 and 31 December 2017 were as follows:

	Note	for the year ended	
		31 December 2018	31 December 2017
Salaries and wages of distribution personnel	31	(745)	(397)
Transport expenses		(6 056)	(4 290)
Depreciation		(87)	(115)
Services provided by third parties		(3 200)	(2 720)
Packing materials		(41)	(69)
Repairs and maintenance costs		(24)	(4)
Other expenses		(62)	(151)
		<b>(10 215)</b>	<b>(7 746)</b>

**27. Other operating income/(expenses)**

Other operating income/(expenses) for the year ended 31 December 2018 and 31 December 2017 were as follows:

	for the year ended	
	31 December 2018	31 December 2017
(Loss)/gain on disposal of current assets	(1 724)	31
Loss on disposal of non current assets	(63)	(30)
Impairment of current assets	(330)	(138)
Gain realised from writing-off of accounts payable	102	400
Foreign currency sale loss	(27)	(34)
Fines, penalties recognized	(342)	(327)
Other income/(expense)	2 589	(586)
	<b>205</b>	<b>(684)</b>

**28. Finance costs**

Finance costs for the year ended 31 December 2018 and 31 December 2017 was as follows:

	for the year ended	
	31 December 2018	31 December 2017
Interest payable on loans	(9 455)	(8 682)
<b>Total finance expenses on loans</b>	<b>(9 455)</b>	<b>(8 682)</b>
Finance expenses on bonds	(19 410)	(22 645)
Other finance expenses	(2 410)	(2 372)
	<b>(31 275)</b>	<b>(33 699)</b>

**29. Finance income**

Finance income for the year ended 31 December 2018 and 31 December 2017 includes the interest income from VAT government bonds and placement of deposits and amounted to USD 1 199 thousand and USD 1 982 thousand respectively.

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**30. Government grants received**

Income from government grants received for the year ended 31 December 2018 and 31 December 2017 was as follows:

	Note	for the year ended	
		31 December 2018	31 December 2017
Amortization of deferred income on government grants	a)	89	91
Income from VAT government grants received	b)	-	19 151
		<b>89</b>	<b>19 242</b>

*a) Partial compensation of complex agricultural equipment cost*

Enterprises of the Group received partial compensation of complex agricultural equipment cost during the years 2004-2010 according to Ukrainian laws. The total amount of compensations received for the above mentioned period is UAH 60 608 thousand. Those grants were recognised as deferred income and reflected within the "Deferred income" item in the consolidated statement of financial position. The deferred income is amortised over the estimated useful life of the relevant asset (generally 25 years) and the amortisation is reflected in the above table.

*b) Income from VAT government grants received*

Since 1 January 2017, a new subsidy for distributing the government grants has been introduced for Ukrainian agricultural producers instead of the special VAT taxation treatment which was in force until 2016. The main objective is that the Government returns part of the VAT paid by agricultural producers to the Government. The distribution of the government grants will be implemented by State Treasury Service under a separate program of the Ministry of Agrarian Policy and Food.

**31. Payroll and related taxes**

	for the year ended	
	31 December 2018	31 December 2017
Salary	(12 182)	(6 759)
Contributions to state funds	(7 243)	(4 019)
	<b>(19 425)</b>	<b>(10 778)</b>

	Note	for the year ended	
		31 December 2018	31 December 2017
Payroll of production personnel and related taxes	24	(12 536)	(5 945)
Salaries and wages of administrative personnel	25	(6 144)	(4 436)
Salaries and wages of distribution personnel	26	(745)	(397)
		<b>(19 425)</b>	<b>(10 778)</b>

	for the year ended	
	31 December 2018	31 December 2017
Average number of employees, persons	2 681	2 012

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**32. Related party balances and transactions**

The Company is controlled by Oleg Bakhmatyuk, who directly or indirectly owns 77,5% of the Company's share capital. The remaining 22,5% of the shares are widely owned.

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

According to these criteria the related parties of the Group are divided into the following categories:

- A. Key management personnel;
- B. Companies having the same top management;
- C. Companies in which the Group's owners have an equity interest;
- D. Companies in which activities are significantly influenced by the Group's owners.

Salary costs of key management personnel for the year ended 31 December 2018 and 31 December 2017 were as follows:

	<b>for the year ended</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Salary	1 193	1 131
Contributions to state funds	226	138
	<b>1 419</b>	<b>1 269</b>

Outstanding amounts of the Group for transactions with related parties as at 31 December 2018 and 31 December 2017 were as follows:

	<b>Outstanding balances with related parties as at</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Prepayments and other current assets, net</b>		
D. Companies in which activities are significantly influenced by the Group's owners	10 425	3 298
	<b>10 425</b>	<b>3 298</b>
<b>Trade accounts receivable</b>		
D. Companies in which activities are significantly influenced by the Group's owners	8 050	11 625
	<b>8 050</b>	<b>11 625</b>
<b>Dividends payable</b>		
D. Companies in which activities are significantly influenced by the Group's owners	22 892	22 892
	<b>22 892</b>	<b>22 892</b>
<b>Trade payables</b>		
D. Companies in which activities are significantly influenced by the Group's owners	6 636	-
	<b>6 636</b>	<b>-</b>
<b>Other current liabilities</b>		
C. Companies in which the Group's owners have an equity interest	115	-
D. Companies in which activities are significantly influenced by the Group's owners	1 993	2
	<b>2 108</b>	<b>2</b>



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**32. Related party balances and transactions (cont.)**

On 2<sup>nd</sup> July 2013 UkrLandFarming Plc acquired a direct shareholding percentage of 7,11% in the share capital of LLC Imperovo Foods partially through contribution of technological equipment for elevators.

From 2<sup>nd</sup> July 2013 and thereafter the share capital of LLC Imperovo Foods was increased through contributions from other Group companies, therefore the direct shareholding percentage of UkrLandFarming Plc was decreased to 3,17% at 31 December 2014.

In 2015 the share capital of LLC Imperovo Foods was increased, therefore the direct shareholding percentage of UkrLandFarming Plc at 31 December 2015 was increased to 3,56%.

As at 31 December 2018 Prepayments and other current assets, (net) include unpaid contribution to the share capital of LLC Imperovo Foods in the amount of USD 2 985 thousand (31 December 2017: USD 2 944 thousand).

The Group's transactions with related parties for the year ended 31 December 2018 and 31 December 2017 were as follows:

	<b>Transactions with related parties for the year ended</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Revenue</b>		
D. Companies in which activities are significantly influenced by the Group's owners	7 581	19 239
	<b>7 581</b>	<b>19 239</b>
<b>General administrative expenses</b>		
D. Companies in which activities are significantly influenced by the Group's owners	(36)	(13)
	<b>(36)</b>	<b>(13)</b>
<b>Distribution expenses</b>		
D. Companies in which activities are significantly influenced by the Group's owners	(4 726)	(4 602)
	<b>(4 726)</b>	<b>(4 602)</b>
<b>Other operating income/(expenses), net</b>		
D. Companies in which activities are significantly influenced by the Group's owners	291	107
	<b>291</b>	<b>107</b>

For the year ended 31 December 2018 and 31 December 2017 purchases of goods, transportation, slaughtering and rent services were provided to the Group by related parties in the amount of USD 58 689 thousand and USD 2 293 thousand respectively. All those goods and services were bought and provided on market terms.

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**33. Operating segments**

A reportable segment is a separable component of a business entity that produces goods or provides services to individuals (or groups of related products or services) in a particular economic environment that is subject to risks and generate revenues other than risks and income of those components that are peculiar to other reportable segments.

For the purpose of management, the Group is divided into the following reportable segments on the basis of produced goods and rendered services, and consists of the following 5 reportable segments:

- shell eggs - breeding of industrial laying hens, production and sale of shell eggs;
- poultry - incubation (production and sale of baby chicks), breeding of young birds for sale, as well as sale of birds for slaughter;
- animal feed - production and sale of feeds;
- egg products - processing and sale of egg products;
- other activities - including sale of goods and services, sale of poultry meat and by-products, sale of plant production, sale of poultry manure etc.

Management monitors the operating results of each of the units separately for the purposes of making decisions about resources allocation and evaluation of operating results. The results of segments' activities are measured on the basis of operating profit or loss, its measurement is carried out accordingly to measurement of operating profit or loss in the consolidated financial statements.

Reportable segment information for the year ended 31 December 2018 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	278 838	37 024	48 469	48 163	7 394	-	419 888
Intra-group elimination	(158 001)	(32 240)	(47 245)	(9 193)	(3 331)	-	(250 010)
Revenue from external buyers	<b>120 837</b>	<b>4 784</b>	<b>1 224</b>	<b>38 970</b>	<b>4 063</b>	-	<b>169 878</b>
Income from revaluation of biological assets at fair value	6 285	3 558	-	-	-	-	9 843
Other operating expenses	(740)	(163)	136	(68)	1 040	-	205
Income from government grants and incentives	88	1	-	-	-	-	89
<b>OPERATING PROFIT/(LOSS)</b>	<b>15 275</b>	<b>(2 362)</b>	<b>(1 462)</b>	<b>(22 525)</b>	<b>(4 857)</b>	-	<b>(15 931)</b>
Finance income	113	-	-	1 083	3	-	1 199
Finance costs,	(145)	-	-	(7 214)	(23 916)	-	(31 275)
<i>including:</i>							
Interest payable on loans	(145)	-	-	(7 154)	(2 156)	-	(9 455)
Income tax (expense)/credit	-	-	(20)	(551)	(7)	-	(578)
<b>NET (LOSS)/PROFIT FOR THE YEAR</b>	<b>15 177</b>	<b>(2 741)</b>	<b>(1 482)</b>	<b>(28 738)</b>	<b>(38 011)</b>	-	<b>(55 794)</b>
<b>TOTAL ASSETS</b>	<b>2 494 319</b>	<b>124 281</b>	<b>229 579</b>	<b>866 441</b>	<b>919 497</b>	<b>(4 117 772)</b>	<b>516 345</b>
Capitalised expenses	13 327	180	39	1 123	277	-	14 946
Depreciation	9 382	2 310	599	490	1 923	-	14 703
<b>TOTAL LIABILITIES</b>	<b>1 943 541</b>	<b>89 825</b>	<b>256 649</b>	<b>696 626</b>	<b>448 133</b>	<b>(2 961 601)</b>	<b>473 173</b>

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**33. Operating segments (cont.)**

Reportable segment information for the year ended 31 December 2017 was as follows:

	Shell eggs	Poultry	Animal feed	Egg products	Other activities	Adjustments and elimination	Total
Sales revenue	176 191	63 439	118 853	14 918	13 044	-	386 445
Intra-group elimination	(94 066)	(46 467)	(115 330)	(876)	(1 819)	-	(258 558)
Revenue from external buyers	<b>82 125</b>	<b>16 972</b>	<b>3 523</b>	<b>14 042</b>	<b>11 225</b>	-	<b>127 887</b>
Income from revaluation of biological assets at fair value	2 024	(5 132)	-	-	-	-	(3 108)
Other operating expenses	(2 972)	185	17	6 847	(273)	-	3 804
Income from government grants and incentives	19 181	60	-	-	-	-	19 242
<b>OPERATING PROFIT/(LOSS)</b>	<b>6 783</b>	<b>(6 498)</b>	<b>(2 067)</b>	<b>2 426</b>	<b>(4 436)</b>	-	<b>(3 792)</b>
Finance income	174	-	-	1 805	3	-	1 982
Finance costs,	(148)	-	-	(6 229)	(27 321)	-	(33 699)
<i>including:</i>							
Interest payable on loans	(148)	-	-	(6 161)	(2 373)	-	(8 682)
Income tax (expense)/credit	(2)	-	(12)	3 318	7	-	3 311
<b>NET (LOSS)/PROFIT FOR THE YEAR</b>	<b>6 970</b>	<b>(6 642)</b>	<b>(2 079)</b>	<b>914</b>	<b>(6 632)</b>	-	<b>(7 469)</b>
<b>TOTAL ASSETS</b>	<b>2 163 470</b>	<b>51 914</b>	<b>198 866</b>	<b>733 538</b>	<b>886 874</b>	<b>(3 521 881)</b>	<b>512 781</b>
Capitalised expenses	949	14	-	231	301	-	1 495
Depreciation	9 280	2 374	617	444	2 696	-	15 411
<b>TOTAL LIABILITIES</b>	<b>1 651 666</b>	<b>3 100</b>	<b>230 894</b>	<b>534 323</b>	<b>390 751</b>	<b>(2 382 474)</b>	<b>428 260</b>

The Group's revenue from external customers and information about its non-current assets by geographical location are presented as follows:

	Revenue from external customers		Non-current assets	
	for the year ended		As at	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Ukraine	103 734	90 037	363 680	383 462
Middle East and North Africa	38 782	23 878	-	-
Far East	5 451	3 555	-	-
Central and West Africa	7 118	2 205	-	-
Europe	14 756	8 153	-	-
South Asia	36	61	-	-
<b>Total</b>	<b>169 878</b>	<b>127 887</b>	<b>363 680</b>	<b>383 462</b>

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**34. Loss per share**

*Basic loss per share*

The calculation of basic loss per share for the year ended 31 December 2018 and 31 December 2017 was based on loss attributable to the owners of the Company, and a weighted average number of ordinary shares as follows:

	<b>for the year ended</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<i>Loss attributable to the owners of the Company:</i> (in USD thousands)		
Loss for the year attributable to the owners of the Company	(54 536)	(6 734)
<i>Weighted average number of shares:</i>		
Weighted average number of ordinary shares at 30 June	6 387 185	6 387 185
<i>Loss per share (USD)</i>	(9)	(1)

Loss per share is the loss for the year after taxation divided by the weighted average number of shares in issue for each year.

There are no options or instruments convertible into new shares and so basic and diluted earnings per share are the same.

**35. Contingent and contractual liabilities**

*Ukrainian business and economic environment*

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

These events have led to the disappearance of economic links between Ukraine and the RF, the key export destination for many Ukrainian industries. Ukraine has lost control over large mining companies concentrated in the East of the country, which significantly decreased the inflow of foreign currency. Eventually, the national GDP has dropped, public finances have eroded, the national currency has suffered severe devaluation and the credit rating of the sovereign debt has continued to deteriorate. The newly elected Government of Ukraine had no financial power to avoid the economic downfall in years 2014-2015. Minimal international reserves and exhausted government accounts have forced the government to introduce administrative anti-crisis tools. The National Bank of Ukraine has introduced currency restrictions: conversion limits, the requirement to convert 70% of foreign currency revenue into national currency, abroad dividend payment ban, ban on early repayment of foreign loans, cash withdrawal limitations. Such restrictions have limited the abilities of Ukrainian companies and banks to lend and borrow money on domestic and international markets.

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**35. Contingent and contractual liabilities (cont.)***Ukrainian business and economic environment (cont.)*

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

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

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

*Taxation*

As a result of unstable economic situation in Ukraine, tax authorities in Ukraine pay more and more attention to the business cycles. In connection with it, tax laws in Ukraine are subject to frequent changes. Furthermore, there are cases of their inconsistent application, interpretation and execution. Non-compliance with laws and norms may lead to serious fines and penalties accruals.

The Company operates in the Cypriot tax jurisdiction and its subsidiaries in the Ukrainian tax jurisdiction. The Company's management must interpret and apply existing legislation to transactions with third parties and its own activities. Significant judgment is required in determining the provision for direct and indirect taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group's uncertain tax positions are reassessed by Management at every reporting period. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the reporting period.

In December 2010, the revised Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later. Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2017, the Tax Code also changed various other taxation rules.

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**35. Contingent and contractual liabilities (cont.)**

*Taxation (cont.)*

The Group considers that it operates in compliance with tax laws of Ukraine, although, a lot of new laws about taxes and transactions in foreign currency have been adopted recently, and their interpretation is rather ambiguous.

As from 1 January 2017, the special VAT regime for agricultural producers was completely abolished. Thus all subjects of special VAT regime have switched to standard VAT terms.

*Operating lease*

The Group leases a number of buildings and equipment under operating leases. The leases typically run for a period of 5 years.

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

<i>in USD thousands</i>	<u><b>31 December 2018</b></u>
Less than one year	564
One year and more	564
	<u><b>1 128</b></u>

*Pension and other liabilities*

Most of the Group's employees receive pension benefits from the Pension Fund, Ukrainian state organization, in accordance with the regulations and laws of Ukraine. Group is obliged to deduct a certain percentage of salaries to the Pension Fund to pay pensions.

As at 31 December 2018 and 31 December 2017 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

*Legal matters*

In the course of its economic activities the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of such proceedings with the purpose of preventing from losses in the economic sphere or minimize them.

The Group's management considers that as at the reporting period, active legal proceedings on such matters will not have any significant influence on its financial position.

*Guaranties*

As at 31 December 2018 and 31 December 2017 surety providers of the liabilities of UkrLandFarming Plc were as follows: LLC Imperovo Foods, PSPC Interbusiness, PJSC Agrohholding Avangard, LLC Slovyany. As at 31 December 2018 the provision for guarantees is amounted USD 1 296 thousand.

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**36. Non-controlling interests**

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

31 December 2018

<i>in USD thousands</i>	<b>LLC Imperovo Foods</b>	<b>PJSC Agroholding Avangard</b>	<b>LLC Torgivenlniy Dim Avangard</b>	<b>LLC "TRANSMAGISTRAL"</b>
<b>NCI percentage</b>	4%	2%	2%	7%
Non-current assets	244 450	695 587	3 120	3 118
Current assets	800 570	1 120 819	207 963	17 954
Non-current liabilities	-	(811)	-	-
Current liabilities	(696 626)	(1 550 919)	(21 315)	(531)
<b>Net assets</b>	<b>348 394</b>	<b>264 676</b>	<b>189 768</b>	<b>20 541</b>
Net assets attributable to NCI	15 250	4 425	3 357	1 528
Revenue	152 625	120 463	-	67
(Loss)/profit	(32 989)	19 272	(61)	26
OCI	(1 282 606)	(559 918)	80 001	(4 349)
<b>Total comprehensive income</b>	<b>(1 315 595)</b>	<b>(540 646)</b>	<b>79 940</b>	<b>(4 323)</b>
(Loss)/profit allocated to NCI	(1 444)	322	(1)	2
OCI allocated to NCI	(56 144)	(9 362)	1 415	(324)

**37. Financial risk management**

The Group has exposure to the following risks arising from the use of financial instruments:

- a) credit risk;
- b) liquidity risk;
- c) market risk;
- d) livestock disease risk.

***Risk management framework***

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group is not a finance company, thus it uses financial instruments as may be necessary in order to obtain finance for its activities, not for the purpose of receiving income. In the process of its activities the Group uses the following financial instruments: cash and cash equivalents, loans to and from related parties, accounts receivable, bonds, bank loans, finance leases and accounts payable.

The Group is exposed to the following risks resulting from use of financial instruments: credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk of fair value). This explanation contains information relating to the Group's exposure to each of the risk types mentioned above, Group's objectives, its policy and procedures of these risks measurement and management.

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**37. Financial risk management (cont.)**

***Risk management framework (cont.)***

Additional disclosures of quantitative information are presented in many other sections of these consolidated financial statements, including:

- information on finance income and costs is disclosed in Notes 28, 29 (all finance income and expenses are recognised as a part of profit or loss for the year, other than interest capitalised which is allocated to the cost of the relevant asset);
- information on cash is disclosed in Note 12;
- information on trade and other accounts receivable is disclosed in Notes 10, 11;
- information on trade and other accounts payable is disclosed in Notes 19, 20;
- information on significant terms of borrowings and loans granting is disclosed in Note 14;
- information on significant conditions of issued bonds is disclosed in Note 15;
- information on significant conditions of received bonds is disclosed in Note 7.

**a) Credit risk**

Credit risk is the risk of financial loss to the Group in case of non-fulfillment of financial obligations by a client or counterparty under the respective agreement. In the reporting period the Group's financial assets which are exposed to credit risk are represented as follows: cash and balances on bank accounts, trade and other accounts receivable (except for receivables that are not represented by financial assets), VAT government bonds, bank deposits.

Exposure to credit risk

The carrying value of financial assets represents the maximum exposure to credit risk. Maximum level of credit risk as at 31 December 2018 and 31 December 2017 was presented as follows:

<b>Financial assets</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash and cash equivalents	20 305	18 242
Investments measured at amortized cost	3 556	6 553
Trade accounts receivable	54 484	45 376
<b>Total</b>	<b>78 345</b>	<b>70 171</b>

The table below shows an analysis of the Group's bank deposit by the credit rating of the bank in which they are held:

<b>Bank group based on credit ratings by Moody's</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
A1-A3	167	7 300
B3	3 897	-
Without credit rating	16 241	10 942
	<b>20 305</b>	<b>18 242</b>

The cash and cash equivalents without credit rating are held with financial institutions in Ukraine with the majority of them held in a financial institution which is under administration. The rate of held to maturity investments is Caa1 using the credit rate of government of Ukraine is per Moody's Rating Agency.



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**37. Financial risk management (cont.)**

**a) Credit risk (cont.)**

Exposure to credit risk (cont.)

The Group's exposure to credit risk regarding trade accounts receivable is primarily dependent on specific characteristics of each client. The Group's policy for credit risk management provides systematic work with debtors, which includes: analysis of solvency, determination of maximum amount of risk related to one customer or a group of customers and control over timeliness of debt repayment.

The majority of Group's clients are longstanding clients, there were no significant losses during the year ended 31 December 2018 and 2017 resulting from non-fulfillment of obligations by clients. The Management is examining each individual customer to provide extended credit terms in the light of the economic environment in Ukraine. The Management believes that unimpaired amounts are still collectible in full. Concentration of credit risk on trade accounts receivable is characterised by the following indicators:

For the year ended 31 December 2018 USD 42 058 thousand or 24,8% from the Group's revenue refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2018 USD 19 826 thousand or 36,4% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

For the year ended 31 December 2017 USD 28 064 thousand or 21,9% from the Group's revenue refers to the sales transactions carried out with one of the Group's clients. As at 31 December 2017 USD 10 842 thousand or 23,9% of the total carrying value of trade accounts receivable is due from the single most significant debtor.

Trade receivables as at 31 December 2018 and 31 December 2017 by dates of origin were presented as follows:

<b>31 December 2018</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>121-180 days</b>	<b>181-365 days</b>	<b>over one year</b>	<b>TOTAL</b>
Carrying value of trade accounts receivable	19 698	11 179	8 568	287	207	1 506	13 038	<b>54 484</b>
<b>31 December 2017</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>121-180 days</b>	<b>181-365 days</b>	<b>over one year</b>	<b>TOTAL</b>
Carrying value of trade accounts receivable	14 307	9 335	9 623	2 825	1 176	8 111	-	<b>45 376</b>

The following table provides information about the exposure to credit risk and ECLs for trade receivables supermarkets, related parties and export as at 31 December 2018.

**31 December 2018**

<i>in thousand USD</i>	<b>Weighted average loss rate</b>	<b>Gross carrying amount</b>	<b>Impairment loss allowance</b>
A	7%	1 590	(111)
B	21%	29 873	(6 315)
C	39%	713	(281)
D	49%	401	(197)
	<b>21%</b>	<b>32 576</b>	<b>(6 904)</b>
Related Parties	0,02%	8 050	(40)
Export	0%	14 073	-
	<b>13%</b>	<b>54 700</b>	<b>(6 944)</b>

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**37. Financial risk management (cont.)**

**a) Credit risk (cont.)**

Exposure to credit risk (cont.)

The following table provides information about the exposure to credit risk and ECLs for trade from other customers as at 31 December 2018.

**31 December 2018**

<i>in thousand USD</i>	<b>Weighted average loss rate</b>	<b>Gross carrying amount</b>	<b>Impairment loss allowance</b>
1–30 days past due	8%	4 553	(345)
31–60 days past due	38%	3 411	(1 296)
61–90 days past due	38%	613	(233)
More than 90 days past due	100%	921	(895)
	<b>29%</b>	<b>9 498</b>	<b>(2 769)</b>

Movement in provision for doubtful debts

	<b>for the year ended</b>	
	<b>2018</b>	<b>2017</b>
<b>As at 1 January</b>	(48 549)	(54 626)
Adjustments on initial application of IFRS:	(991)	-
<b>As at 1 January under IFRS 9</b>	<b>(49 540)</b>	<b>(54 626)</b>
Bad Debt recovered	-	4 488
Increase in loss allowance	(9 739)	-
Release of loss allowance	560	-
Amounts written off	48 582	-
Effect of translation into presentation currency	(1 340)	1 589
<b>As at 31 December</b>	<b>(11 477)</b>	<b>(48 549)</b>

**b) Liquidity risk**

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

The aim of the Group is the maintenance of balance between continuous financing and flexibility in usage of bank loans and settlements with suppliers.

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

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**37. Financial risk management (cont.)**

**b) Liquidity risk (cont.)**

Exposure to liquidity risk

**31 December 2018**

<b>Non-derivative financial liabilities</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>
Bank loans	(133 298)	(131 721)	(682)	(845)	(49)
Short-term bond liabilities	(235 889)	(235 889)	-	-	-
Trade payables	(13 795)	(13 795)	-	-	-
Dividends payable	(29 578)	(6 684)	-	(22 894)	-
Interest payable on loans	(20 042)	(20 042)	-	-	-
Accrued coupon on bonds	(31 757)	(31 757)	-	-	-
Other payables	(3 379)	(3 379)	-	-	-
	<b>(467 738)</b>	<b>(443 267)</b>	<b>(682)</b>	<b>(23 739)</b>	<b>(49)</b>

**31 December 2017**

<b>Non-derivative financial liabilities</b>	<b>Contractual cash flows</b>	<b>Less than 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>
Bank loans	(168 983)	(87 628)	(12 536)	(68 727)	(92)
Short-term bond liabilities	(267 633)	-	(267 633)	-	-
Trade payables	(2 298)	(2 298)	-	-	-
Dividends payable	(29 542)	-	-	(29 542)	-
Interest payable on loans	(10 955)	-	(10 955)	-	-
Accrued coupon on bonds	(14 249)	-	(14 249)	-	-
Other payables	(1 844)	-	(1 844)	-	-
	<b>(495 504)</b>	<b>(89 926)</b>	<b>(307 217)</b>	<b>(98 269)</b>	<b>(92)</b>

**c) Market risk**

Market risk is the risk of negative influence of changes in market prices, such as foreign exchange rates and interest rates, on revenue position of the Group or on the value of the Group's available financial instruments.

The objective of market risk management provides control over the Group's exposure to market risk, as well as keeping its level within reasonable limits. Description of the Group's exposure to such market components as currency risk and interest rate risk, is given below.

**i) Foreign currency risk**

Foreign currency risk which represents a part of market risk is the risk of change in the value of financial instruments due to changes in foreign exchange rates.

Management does not use derivative financial instruments to hedge foreign currency risks and does not follow the official policy for distribution of risks between liabilities in one or another currency. However, in the period of receiving new borrowings and loans, management uses its own estimates to take the decision as for which currency of denomination will be more favourable for the Group during the expected period until maturity.

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**37. Financial risk management (cont.)**

**c) Market risk (cont.)**

**i) Foreign currency risk (cont.)**

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in functional currency (UAH) as at 31 December 2018 based on carrying amounts was as follows:

<i>(in conversion to USD thousand)</i>	<b>USD</b>	<b>EUR</b>	<b>TOTAL</b>
Trade payables	408	1 077	<b>1 485</b>
Trade accounts receivable	(14 073)	-	<b>(14 073)</b>
<b>Net exposure to foreign currency risk</b>	<b>(13 665)</b>	<b>1 077</b>	<b>(12 588)</b>

The Company's exposure to foreign currency risk and the functional currency (EUR) as at 31 December 2018 based on carrying amounts was as follows:

<i>(in conversion to USD thousand)</i>	<b>USD</b>
Short-term bond liabilities	235 889
Dividends payable	29 542
Other accounts payable	47
Cash and cash equivalents	(36)
Accrued coupon on bonds	31 757
<b>Net exposure to foreign currency risk</b>	<b>297 199</b>

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2017 based on carrying amounts was as follows:

<i>(in conversion to USD thousand)</i>	<b>USD</b>	<b>EUR</b>	<b>TOTAL</b>
Trade payables	269	860	<b>1 128</b>
Cash and cash equivalents	(20)	-	<b>(20)</b>
Trade accounts receivable	(13 123)	(2 039)	<b>(15 162)</b>
Other payables	18	-	<b>18</b>
<b>Net exposure to foreign currency risk</b>	<b>(12 856)</b>	<b>(1 179)</b>	<b>(14 036)</b>

The Company's exposure to foreign currency risk and the functional currency (EUR) as at 31 December 2017 based on carrying amounts was as follows:

<i>(in conversion to USD thousand)</i>	<b>USD</b>
Short-term bond liabilities	231 612
Dividends payable	29 542
Other accounts payable	110
Cash and cash equivalents	(6 624)
Accrued coupon on bonds	14 249
<b>Net exposure to foreign currency risk</b>	<b>268 889</b>

*Sensitivity analysis (foreign currency risk)*

Below there is a sensitivity analysis of income (or loss) of the Group before tax to the possible changes in foreign currency rates. This analysis is conducted based on the assumption that all other variables and interest rates in particular, remain unchanged.

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**37. Financial risk management (cont.)**

**c) Market risk (cont.)**

**i) Foreign currency risk (cont.)**

*Sensitivity analysis (foreign currency risk) (cont.)*

Effect in USD thousand:	Increase in currency rate against UAH	Effect on profit before tax	Effect on equity
<b>31 December 2018</b>			
USD	20%	2 733	2 733
EUR	15%	(162)	(162)
<b>Effect in USD thousand:</b>			
<b>31 December 2018</b>			
	Increase in currency rate against EUR	Effect on profit before tax	Effect on equity
USD	5%	(14 860)	(14 860)
<b>Effect in USD thousand:</b>			
<b>31 December 2017</b>			
	Increase in currency rate against UAH	Effect on profit before tax	Effect on equity
USD	20%	2 571	2 571
EUR	15%	177	177
<b>Effect in USD thousand:</b>			
<b>31 December 2017</b>			
	Increase in currency rate against EUR	Effect on profit before tax	Effect on equity
USD	5%	(13 444)	(13 444)

**ii) Interest rate risk**

Interest rate risk is connected with a possibility of changes in value of financial instruments resulting from changes in interest rates.

At present, the Group's approach to limitation of interest rate risk consists of borrowings at fixed interest rates.

Structure of interest rate risk

As at 31 December 2018 and 31 December 2017 the structure of interest financial instruments of the Group, grouped according to the types of interest rates, was presented as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>Instruments with fixed interest rate</b>		
Financial assets	3 556	6 553
Financial liabilities	(283 003)	(278 090)
<b>Instruments with variable interest rate</b>		
Financial liabilities	(84 104)	(87 628)

Interest rate risk related to the liabilities with the floating interest arises from the possibility that changes in interest rates will affect the value of the financial instruments. For variable rate borrowings, interest is linked to EURIBOR.

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**37. Financial risk management (cont.)**

**c) Market risk (cont.)**

**ii) Interest rate risk (cont.)**

Structure of interest rate risk (cont.)

As at 31 December 2018 and 31 December 2017 the Group's sensitivity to changes of EURIBOR by 5% was presented as follows:

<b>Effect in USD thousand:</b>	<b>Increase/(decrease) of floating rate</b>	<b>Effect on profit before tax</b>
<b>31 December 2018</b>		
EURIBOR	5%	6
EURIBOR	-5%	(6)
<b>31 December 2017</b>		
EURIBOR	5%	7
EURIBOR	-5%	(7)

The effect of interest rate sensitivity on owners' equity is equal to that on the consolidated statement of comprehensive income.

Such financial instruments as cash and cash equivalents, trade accounts receivable, financial assistance issued, interest receivable for deposits, prepayment for bonds, other non trading accounts receivable are not included in the table given above, since possible effect of changes in interest rate risk (discount rates) under these financial instruments is not material.

*Capital management*

The Group's management follows the policy of providing the firm capital base which allows supporting the trust of investors, creditors and market and ensuring future business development.

In relation to capital management the Group's objectives are as follows: maintaining the Group's ability to adhere to the going concern principle in order to provide income for owners and benefits to other interested parties, and also maintaining the optimal capital structure with the purpose of its cost reduction.

To manage capital, the Group's management, above all, uses the calculations of the financial leverage coefficient (leverage ratio) and the ratio between net debt and EBITDA.

Financial leverage is calculated as a ratio between net debt and total amount of capital. Net debt is calculated as cumulative borrowings net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the statement of financial position plus the amount of net debt.

This ratio measures net debt as a proportion of the capital of the Group, i.e. it correlates the debt with total equity and shows whether the Group is able to pay the amount of outstanding debts. An increase in this coefficient indicates an increase in borrowings relative to the total amount of the Group's capital. Monitoring this indicator is necessary to keep the optimal correlation between own funds and borrowings of the Group in order to avoid problems from over leverage.

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**37. Financial risk management (cont.)**

**c) Market risk (cont.)**

*Capital management (cont.)*

Financial leverage ratio calculation

For the ratio of net debt to EBITDA, the calculation of net debt is as above. EBITDA is an indicator of income before taxes, interest depreciation and amortisation. It is useful for the Group's financial analysis, since the Group's activity is connected with long-term investments in property, plant and equipment. EBITDA does not include depreciation, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

The ratio of net debt to EBITDA gives an indication of whether income obtained from operating activities is sufficient to meet the Group's liabilities.

As at 31 December 2018 and 31 December 2017 the Group's financial leverage coefficient was 88,9% and 80,4% respectively.

	<b>Carrying value</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Long-term loans	320	42 750
Current portion of long-term loans	131 218	91 673
Bond liabilities	235 889	231 612
<b>Total debt</b>	<b>367 427</b>	<b>366 035</b>
Cash and cash equivalents	(20 305)	(18 242)
<b>Net debt</b>	<b>347 122</b>	<b>347 793</b>
Share capital	836	836
Share premium	201 164	201 164
Capital contribution reserve	115 858	115 858
Retained earnings	799 717	857 723
Foreign currency translation reserve	(1 082 335)	(1 099 825)
Non-controlling interests	7 932	8 765
<b>Total equity</b>	<b>43 172</b>	<b>84 521</b>
<b>Total amount of equity and net debt</b>	<b>390 294</b>	<b>432 314</b>
<b>Financial leverage coefficient</b>	<b>88,9%</b>	<b>80,4%</b>

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**37. Financial risk management (cont.)**

**c) Market risk (cont.)**

*Capital management (cont.)*

Financial leverage ratio calculation (cont.)

For the year ended 31 December 2018 and 31 December 2017 ratio of net debt to EBITDA amounted to:

	<b>for the year ended</b>	
	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>LOSS FOR THE YEAR</b>	(55 794)	(7 469)
Income tax credit	578	(3 311)
Finance income	(1 199)	(1 982)
Finance expenses	31 275	33 699
Impairment of current assets	330	138
Losses/(income) on exchange	9 209	(24 729)
<b>EBIT (earnings before interest and income tax)</b>	<b>(15 601)</b>	<b>(3 654)</b>
Depreciation	14 703	15 411
<b>EBITDA (earnings before interest, income tax, depreciation)</b>	<b>(898)</b>	<b>11 757</b>
Net debt at the year end	347 122	347 793
<b>Net debt at the period end / EBITDA</b>	<b>(386,55)</b>	<b>29,58</b>

During the year there were no changes in the approach to capital management. The Group is not subject to external regulatory requirements regarding capital.

**d) Livestock diseases risk**

The Group's agro-industrial business is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of disease which are highly contagious and destructive to susceptible livestock, such as avian influenza or bird flu for its poultry operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to minimise and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

**38. Fair values**

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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



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**38. Fair values (cont.)**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total
<b>31 December 2018</b>				
Biological Assets	-	-	52 112	52 112
<b>31 December 2017</b>				
Biological Assets	-	-	19 892	19 892

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 31 December 2018.

The fair value of biological assets is determined as the discounted value of net cash flows expected from assets.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation team that reports directly to the Chief Financial Officer, and has overall responsibility for fair value measurement of biological assets.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. The valuation team assesses and documents the evidence obtained to support the conclusion that the valuation meets the requirements of IFRS, including the level in the fair value hierarchy. Significant valuation issues are reported to the Chief Financial Officer.

The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	As at	
	<b>31 December 2018</b>	<b>31 December 2017</b>
Discount rate	20,54%	24,66%
Inflation rate	109,80%	113,70%

The higher the discount rate the lower the fair value of biological assets, and the higher the inflation rate the higher the fair value of biological assets. Any interrelationship between the unobservable inputs is not considered to have a significant impact within the range of reasonably possible alternative assumptions.

Sensitivity analysis of biological assets fair value to the possible changes in foreign currency rates is disclosed in the table below:

<b>Effect in USD thousand:</b>	<b>Increase/decrease of rate</b>	<b>Effect on fair value of biological assets</b>
<b>31 December 2018</b>		
Discount rate	-2,50%	862
Discount rate	2,50%	(846)
Inflation rate	1,75%	3 809
Inflation rate	-1,75%	(3 809)
<b>31 December 2017</b>		
Discount rate	-2,50%	265
Discount rate	2,50%	(261)
Inflation rate	1,75%	1 058
Inflation rate	-1,75%	(1 058)

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**38. Fair values (cont.)**

There were no transfers to/from Level 3 of the fair value hierarchy during the year ended 31 December 2018.

The reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy is analyzed in note 6 of these consolidated financial statements.

Total gains or losses for the year as shown in the reconciliation (note 6) are presented on the face of the consolidated statement of profit or loss and other comprehensive income as “(Loss)/profit from revaluation of biological assets at fair value” (31 December 2018: Income USD 9 843 thousand).

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<b>31 December 2018</b>					
<i>Financial Assets</i>					
Cash and cash equivalents	-	20 305	-	20 305	20 305
Investments measured at amortized cost	3 643	-	-	3 643	3 556
Trade and other receivables	-	-	54 484	54 484	54 484
<i>Financial Liabilities</i>					
Trade payables	-	-	13 795	13 795	13 795
Bank loans	-	131 218	-	131 218	131 218
Short-term bond liabilities	45 564	-	-	45 564	235 889
<b>31 December 2017</b>					
<i>Financial Assets</i>					
Cash and cash equivalents	-	18 242	-	18 242	18 242
Investments measured at amortized cost	7 101	-	-	7 101	6 553
Trade and other receivables	-	-	45 376	45 376	45 376
<i>Financial Liabilities</i>					
Trade payables	-	-	2 298	2 298	2 298
Bank loans	-	134 106	-	134 106	134 106
Short-term bond liabilities	49 500	-	-	49 500	231 612

*Assumptions in assessing fair value of financial instruments and assessment of their subsequent recognition*

As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instruments. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2018, the following methods and assumptions, which remained the same as the prior year, were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

*Cash and cash equivalents* - the fair value is estimated to be the same as the carrying value for these short-term financial instruments.

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### Notes to the consolidated financial statements FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 38. Fair values (cont.)

*Held to maturity investments* - the fair value of held to maturity investments are measured using the available quoted market prices.

*Trade and other accounts receivable, financial assistance issued* - the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed for reflection of credit risk influence.

*Trade and other accounts payable* - the fair value is estimated to be the same as the carrying value for trade and other accounts payable.

Application of the effective interest rate method for calculating carrying value of short-term accounts receivable, interest free loans granted and received and accounts payable does not significantly influence the relevant rates in the consolidated financial information of the Group.

*Short-term and long-term bank loans, finance lease liabilities, short-term bonds issued* - the fair value of short-term and long-term bank loans, finance lease liabilities, short-term bonds issued is estimated to approximate the total carrying value as the nominal interest rate of long-term bank loans is approximately tied to the market rate concerning bank loans with similar credit risk rate and repayment period at the reporting period.

*Bonds issued* - the fair value of bonds issued is measured using the available quoted market prices from the relevant stock exchange in which the bonds are listed.

As at 31 December 2018 the fair value of the above financial instruments approximated to their carrying amount besides short-term bonds whose fair value was USD 45 564 thousand (short-term bonds 31 December 2017: USD 49 500 thousand).

#### 39. Risks related to the Group's operating environment in Ukraine

Ukraine is still involved in the military conflict with pro-Russian terrorists and Russian troops. As a result Ukraine is in a state of economic war.

During the conflict (2014-2017) Ukraine faced the below mentioned consequences: inability to attract investment, capital outflow, negative trade balance and national currency devaluation. This inevitably led to lower living standards and decrease in purchasing power of the population.

These events have affected the activities of the Group. Three companies located on the Crimean peninsula are beyond the control of the Group due to annexation of the peninsula, as follows: LLC Yuzhnaya - Holding, SC Ptakhohospodarstvo Yuzhnaya Holding of LLC Yuzhnaya Holding, and PPB LLC Ptytsecomplexs. The companies located on the territory of the Lugansk and Donetsk regions are under control of the pro-Russian terrorists, as follows: PJSC Ptakhohospodarstvo Chervonyi Prapor, SC Ptakhofabryka Chervonyi Prapor Poultry, of PJSC Ptakhohospodarstvo ChervoniyPrapor and PJSC Vuhlehirskiyi Eksperementalnyi Kombikormovy Zavod. The Group has lost the control over these companies and recognized the loss on impairment of these assets in 2014. In addition, the Group has lost the share of the market (Crimea accounted for 5%, Lugansk and Donetsk regions – for 15% of Ukrainian consumer market).

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

Challenges facing the Group:

- Decline in consumer demand in Ukraine due to lower purchasing power of population and increase in household egg production.
- Increase in cost of eggs produced nominated in UAH as imported materials are used in production.
- Substantial decrease in margin due to increase in cost of sales of egg (USD 0,05 per 1 egg) while no relevant increase in prices was observed (due to decline in demand).
- Decrease in prices on traditional for the Group foreign markets and decline in sales volumes. The latter was caused by the ban imposed on export of poultry products from Ukraine due to Avian influenza outbreaks.

The Group seeks to retain its assets and market position both on domestic and on international markets.

Despite hard times in the history of the Group, we look forward to positive developments in the coming years. Ukraine is facing painful yet substantial and necessary reforms. The government has successfully implemented the banking reform, introduced several important changes in energy sector, created anticorruption agencies, launched medical and pension reforms, we also saw tax cuts and new administrative approaches. The anticorruption court is expected to be established as a part of judicial reform. The administration reform aimed at decentralization is being gradually implemented, granting more executive and financial autonomy to local authorities. A number of global organizations supporting the reforms. The political commitment of the government to carry out the reforms and international support inspire confidence Ukraine can not only overcome the crisis but also imply European values and regulations and become a part of Europe not only geographically but also legally. The reforms will eventually improve the living standards, which will have a positive effect on the Group activities. Moving towards the EU, the Group expects to sell not only egg products but also class (grade) A shell eggs on European markets in the near future.

**40. Events after the reporting period**

In February 2019 the Company has successfully completed the restructurization of debt with The Public Joint-Stock Company "State Savings Bank of Ukraine" (further: Oschadbank). The negotiations lasted for more than a year. At this point, it is a positive development, as the restructurization enables the Company to ease the debt pressure and restore normal operational activities. Resulting from the deal, the company agreed to repay debt liabilities to Oschadbank until 2032. The interest rate was significantly lowered and the major part of debt repayment is shifted to the second half of repayment period. Regarding remaining debt liabilities (eurobonds and ECA loans), the company is still in the process of negotiation.

There were no further material events after the reporting period except the fact that while Management believes it is taking all necessary measures to maintain the sustainability of the business in the current circumstances, a further deterioration of economic and political conditions in Ukraine could adversely affect the Group's results and financial position so that it is currently impossible to predict.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of Avangardco Investments Public Limited on 28 March 2019.