



A LEADING INTERNATIONAL AGRO-INDUSTRIAL COMPANY

ANNUAL REPORT
AND ACCOUNTS 2017



MHP
AGRO & INDUSTRIAL
HOLDING



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PERFORMANCE HIGHLIGHTS

MHP MADE PROGRESS ON A NUMBER OF FINANCIAL AND OPERATIONAL PRIORITIES

FINANCIAL HIGHLIGHTS

**US\$
1,288**
million

Revenue
(+13% y/y;
2016: US\$ 1,135 million)

**US\$
732**
million

Export revenue
(+15% y/y;
2016: US\$ 635 million)

57%
of revenue
in US\$

(2016: 56%)

**US\$
365**
million

**Adjusted operating
profit**
(+15% y/y;
2016: US\$ 317 million)

**US\$
459**
million

Adjusted EBITDA
(+11% y/y;
2016: US\$ 415 million)

**US\$
230**
million

Net profit
(+233% y/y;
2016: US\$ 69 million)

**US\$
2.14**

Earnings per share
(+257% y/y;
2016: US\$ 0.60)

**US\$
0.7492**

Dividend per share
(2016: US\$ 0.7529)

**US\$
500**
million

**Successful
7-year Eurobond**
with a coupon of 7.75%



OPERATIONAL AND STRATEGIC HIGHLIGHTS

MIGRATION OF THE COMPANY

from Luxembourg to Cyprus

NEW CUTTING FACILITY

in Slovakia in line with export strategy

VINNYTSIA POULTRY COMPLEX

– significant progress in the construction of Phase 2 of the complex

BIOGAS COMPLEX

– start of the construction of second biogas complex at the Vinnytsia poultry complex – 12 MW capacity

CRIMEAN ASSETS DISPOSAL





¹ MHP SE, a société européenne, registered under the laws of Cyprus, was established on May 30, 2006. The Company is the ultimate holding company of PJSC Myronivsky Hliboproduct (MHP) and its subsidiaries. In this Annual Report & Accounts, MHP SE and its subsidiaries are referred to as “MHP”, “The Company” or “the Group”.

² Source: SSCU.

³ Source: Research conducted by InMind.

COMPANY OVERVIEW

AN INTERNATIONAL COMPANY HEADQUARTERED IN UKRAINE, MHP¹ IS A VERTICALLY-INTEGRATED, LEADING AGRO-INDUSTRIAL GROUP

MHP is a long-term growth story

It is the leading domestic producer of poultry products with the greatest market share² and highest brand recognition³ for its poultry products.

Its vertically-integrated business model marks MHP out from its peers

It delivers a low cost base leadership position and sustainably higher earnings. MHP owns and operates facilities at each of the key stages of chicken production processes: grain and fodder production; egg incubation and grow-out; processing; marketing; and sales and distribution. MHP leases agricultural land located in the highly fertile black soil regions of Ukraine. With modern production assets, which are amongst the most technologically advanced in Ukraine and the EU, and the high biosecurity standards inherent in the Company's activities, there are also clear responsible business benefits in both animal welfare and full control of food safety.

A key growth driver is the expansion of the Vinnysia complex

Phase 2 of the development commenced in 2016 and progressed substantially during 2017 to create new capacity. When fully operational, it is expected to position the Company to offer high-return expansion and export share growth.

Export revenue now constitutes 57% of total revenue

MHP exports chicken meat, vegetable oils and grains. Serving large, attractive and growing international poultry markets, the Company's expansion strategy is focussed on increasing export volumes, leading to additional hard currency revenue. Export revenue provides MHP with a natural hedge against local currency volatility. MHP now exports to 63 countries and demonstrates steadily increasing export traction. Building out from this platform, MHP is expanding its international operations in Europe (the Netherlands and Slovakia) and the Gulf Cooperation Council (GCC). In addition to organic growth, the Company's expansion may be supplemented by targeted acquisitions.

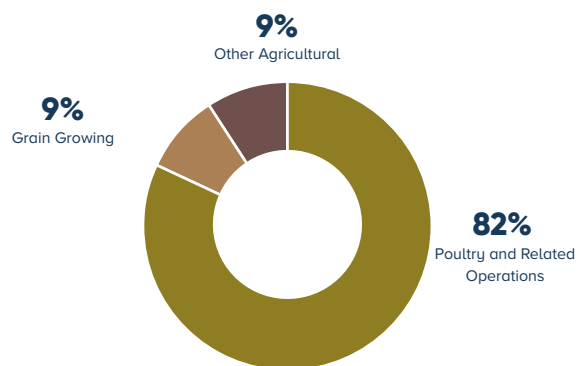
Stable and sustainable profitability

Since 2013 MHP generates positive cash flow and pays an annual dividend. Company's profit margins (EBIT-DA) are sustainably higher compared to international peers – in the 28% to 42% range over the past 15 years.

Strong credit history

MHP has an established and strong track record in international capital markets and has been a responsible issuer of debt for over 10 years.

REVENUE SPLIT BY BUSINESS SEGMENTS



Poultry and Related Operations, Grain Growing and Other Agricultural Segments' sales accounted for 82%, 9% and 9%, respectively, of MHP's revenues in 2017.

OUR BUSINESS SEGMENTS

THE COMPANY IS ORGANISED INTO THREE SEGMENTS WHICH FORM THE CORNERSTONES OF THE VERTICALLY-INTEGRATED BUSINESS MODEL: POULTRY AND RELATED OPERATIONS SEGMENT; GRAIN GROWING SEGMENT; AND OTHER AGRICULTURAL SEGMENT

POULTRY AND RELATED OPERATIONS SEGMENT

MHP is the leading poultry producer in Ukraine, accounting for approximately 30% of all industrially produced chicken meat consumed in the country in 2017¹.

MHP commands high brand recognition domestically with its poultry products sold at premium prices.

MHP'S POULTRY BRANDS

Brand Name	Geography	Chilled / Frozen	Product
Nasha Riaba	Ukraine	Chilled	Whole, parts
Ukrainian Chicken	Ukraine	Frozen	Whole, parts
Qualiko	Export	Chilled / Frozen	Whole, parts
Ukrainian Chicken	Export (except the EU and Asia)	Frozen	Whole, parts
Assilah	Export (MENA)	Frozen	Whole
Sultanah	Export (MENA)	Frozen	Whole
Al Hassanat	Export (Iraq)	Frozen	Whole, parts
Bibilo	Export (Georgia)	Frozen	Whole

MHP supplies chicken and other meat products to a number of nationwide supermarket chains, including Fozzy, ATB-Market, Metro Cash & Carry, ECO, Novus, Auchan.

MHP also produces and sells vegetable oils (sunflower and soybean oils) as a by-product of its fodder production, mainly to international traders.

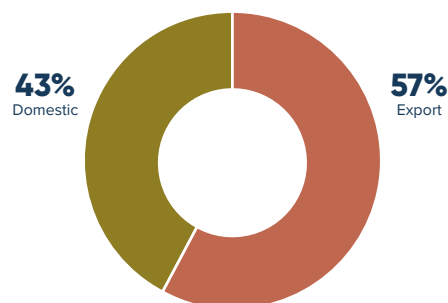
¹ Source: SSCU

OUR GLOBAL FOOTPRINT

MHP is steadily gaining traction in export markets, driven by sustained growth in a number of key regions such as the EU, MENA and Africa.

The Company has expanded in the EU with two European cutting (deboning) facilities. These establishments have been operated in the Netherlands since 2016 and in Slovakia since 2017. In 2016, the Company also established a sales and distribution office in the UAE as part of its export strategy.

2017 GROUP EXPORT AND DOMESTIC REVENUE



GRAIN GROWING SEGMENT

MHP is one of the leading grain cultivation businesses in Ukraine growing corn, sunflower and soybean to support the vertical integration of its chicken production. Increasingly, other grains such as wheat and

rape are grown for sale to third parties. In 2017, MHP's landbank constituted around 370,000 hectares of land, one of the largest land portfolios in Ukraine. Crop yields are well above the Ukrainian average.

OTHER AGRICULTURAL SEGMENT

MHP's meat-processing business is a main driver of the Segment's profitability as it gives the Company additional value-add in its products that its customers are willing to pay a premium for. Processing includes the production of a wide variety of sausages, smoked chick-

en, and chilled and frozen cooked convenience food predominantly from chicken meat. MHP is one of the leaders in a highly fragmented meat-processing market in Ukraine, accounting for approximately 14%¹ of meat-processing products in Ukraine in 2017.

MHP'S PROCESSED MEAT BRANDS

Brand Name	Geography	Product
Bashchinskiy	Ukraine	Sausages, convenience food (chilled), smoked chicken
Lehko!	Ukraine	Convenience food (frozen)
Sytni	Ukraine	Convenience food (frozen)
Qualiko	Export	Convenience food (frozen), raw marinated chicken (frozen)
Non-branded	Ukraine	Convenience food (frozen), bulk

¹Source: SSCU

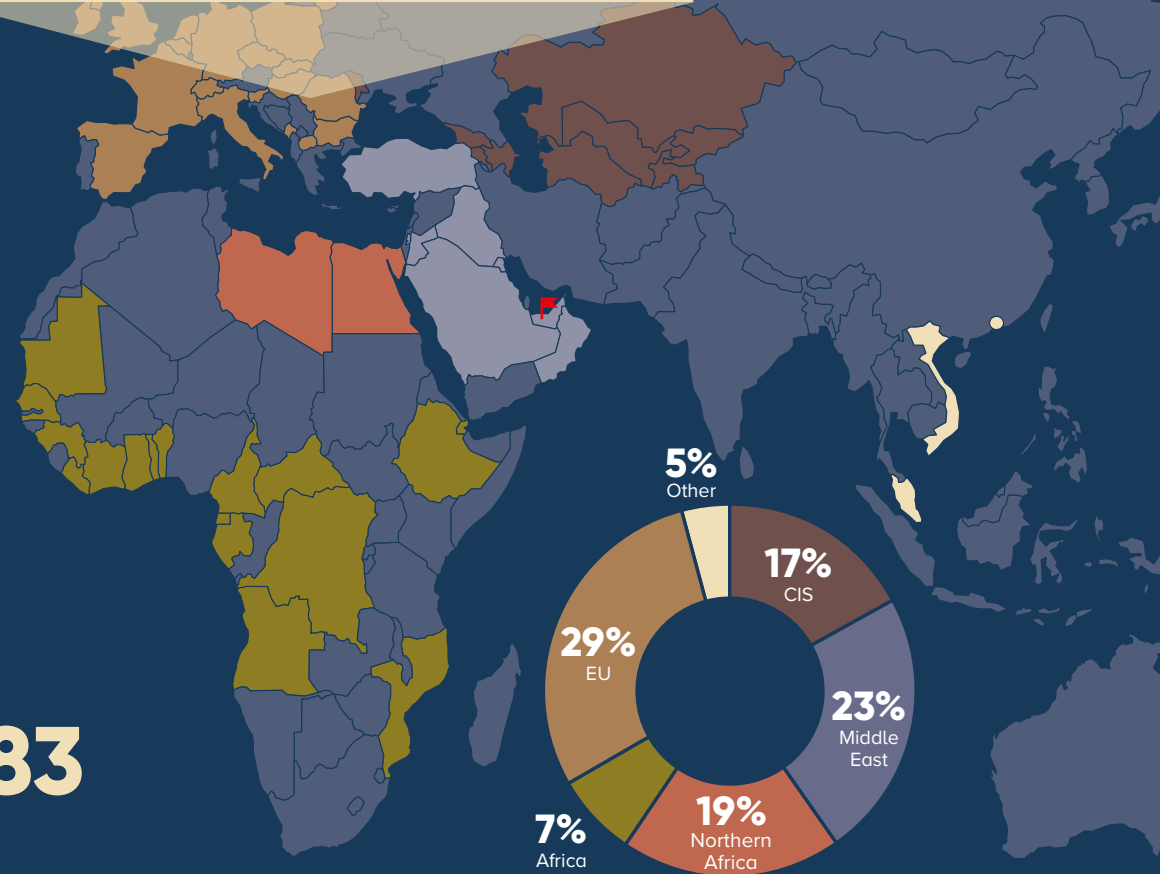
POULTRY EXPORT MARKETS

IN 2017 MHP'S STRATEGY OF DIVERSIFICATION AND MARKET TARGETING DROVE A 16% YEAR-ON-YEAR INCREASE IN POULTRY EXPORTS

3 international offices

63 export countries

220,983 tonnes of chicken meat in 2017



EXPORT VOLUMES (TONNES) OF CHICKEN MEAT BY REGION IN 2017

OUR STRENGTHS

VERTICALLY-INTEGRATED BUSINESS MODEL

Business Impact

- Reduces costs by creating synergies in a number of areas and thereby reducing per unit costs
- Reduces dependence on suppliers and farmers
- Reduces exposure to raw material price volatility
- Enables maintenance of strict biosecurity standards throughout entire production process
- Enhances quality control

MHP grows corn, sunflower and soybean to support its chicken production.

MHP is considered to be the lowest cost poultry producer in Ukraine and worldwide. This is mainly due to the vertically-integrated business model and intensive and efficient CAPEX.

The reduction in dependence on suppliers and farmers and consequent reduction in exposure to increases in raw material prices

is particularly important in developing markets, such as Ukraine, to avoid supply interruption and price volatility.

Vertical integration also allows MHP to maintain strict biosecurity, to control the quality of its inputs and the resulting quality and consistency of its products through to the point of sale. This is a clear differentiator for the Company.

THE LEADING PRODUCER OF POULTRY PRODUCTS IN UKRAINE

Business Impact

- Reputation for quality
- Enables realisation of production and marketing economies of scale
- Competitive advantage over existing competition and potential new entrants
- Organic growth through greenfield projects in Ukraine
- Start of construction of Phase 2 of the Vinnytsia project

Management believes that MHP's established market position and reputation for quality strengthen its bargaining position with respect to MHP's domestic retail customers.

MHP's scale helps it to realise production and marketing economies of scale and positions MHP to capitalise on the expected continued growth and development of the Ukrainian market. During 2017, MHP continued the

construction of the Vinnytsia complex – Phase 2, with two lines, is expected to double current production capacity at the complex. The production and launch schedule can be found on pp.28.

HIGHLY EXPERIENCED MANAGEMENT TEAM



Business Impact

- Considerable agro-industry and food products industry expertise
- Well placed to identify and capitalise on future market opportunities including potential acquisitions
- Successful track record of execution of deals furthering the Company's international expansion, including in the EU (the Netherlands and Slovakia) and the GCC

MHP was founded in 1998 by the Group's CEO, Mr Yuriy Kosyuk, who was one of the first industrialists to capitalise on the opportunities in the Ukrainian agricultural market following the transition to a market economy.

MHP's senior management team largely comprises experienced professionals who have worked closely and effectively together at MHP since 1998.

Together they have over 100 years of combined agro-industry experience.

DIVERSIFIED AND GROWING EXPORTS



Business Impact

- Diversification decreases exposure to geopolitical Ukrainian risk factors
- International growth opportunities
- Additional hard currency revenue
- Reduced local currency exposure
- New cutting facility in Slovakia

Since 2008, MHP has been developing and growing its exports into the CIS (Commonwealth of Independent States), MENA (Middle East and North Africa), the EU, Africa and Asia. In 2017 MHP exported 220,983 tonnes of chicken meat to 63 countries (2016: 190,223 tonnes to 69 countries).

In line with the Company's consistent strategy, MHP will continue to seek to diversify its sales geographically.

Since 2016, MHP has also adopted a strategy of market targeting i.e. targeting particular regions or markets with certain products, gradually improving the profitability of those exports and thereby increasing export revenue.

MHP sells both chilled chicken meat (mainly to the EU, which represented around 29% of total poultry exports in 2017) and frozen chicken meat, mainly under its "Qualiko" brand.

DIVERSIFIED SALES NETWORK IN UKRAINE



Business Impact

- Helps to broaden customer base
- Achievement of better pricing by creating a competitive balance between principal distribution channels

MHP distributes and sells its chicken products through a number of channels including: supermarkets and hypermarkets; branded outlets; and direct to meat processors and foodservice businesses (hotels, restaurants and cafes). By supplying chicken and other meat products to a number of nationwide supermarket chains MHP's products are more widely available. This helps to increase

sales volumes as these retailers continue to expand throughout Ukraine.

MHP operates with partners and sells its products via a network of branded outlets, which Management believes is a unique model among Ukrainian food businesses. This network consisted of 1,934 outlets as at 31 December 2017.

ESTABLISHED DISTRIBUTION NETWORK IN UKRAINE



Business Impact

- Increases efficiency and enables higher standards of customer service
- Reduces transportation costs and delivery times
- Increases availability of MHP's products
- More efficient monitoring of franchisees' compliance with MHP's retail standards

MHP maintains a network of 11 distribution centres located within major Ukrainian cities.

MHP uses its own fleet of 477 refrigerated trucks for the distribution of its products. The maintenance of the Company's own fleet reduces both transportation costs and delivery times.

MHP's extensive distribution network helps it to enhance its overall customer service and to

secure its market position by ensuring quality, as well as reliable and timely product delivery. It also increases the overall availability of MHP's products.

MHP's distribution and logistics centres provide support to supermarkets and branded outlets and also monitor their compliance with the Company's retail standards.



STRONG BRANDS

Business Impact

- Represent quality and reliability to consumers
- Increase customer loyalty
- Help to grow market share through 'word-of-mouth'

MHP has strong brands in the consumer markets in which it operates. In 2017, unprompted brand recognition of MHP's "Nasha Riaba" brand was 95%, and prompted brand recognition was 99%¹.

MHP also has several other widely recognised national and regional brands for processed meat products. Management believes that its brands are perceived as representing the highest quality and greatest reliability, thereby helping to support MHP's pricing strategy. The Company sells its poultry products under the Nasha Riaba brand name at a premium to competitors.

MHP recognises the importance of continued investment and intends to continue to focus a significant proportion of its marketing efforts on enhancing the value of its brands.



HIGH BIOSECURITY STANDARDS

Business Impact

- Company standards are in line with Ukrainian legislation and with international best practice
- Ensures animal welfare
- Enhances Company's reputation for reliability and quality

Management strives for the highest standards in safety and hygiene and is not only confident that MHP's biosecurity systems comply with Ukrainian legislation but also believes that they are in line with international best practice.

Very strict biosecurity standards have been established and are adhered to by the Company at every stage of the poultry production process, and in the Company's fodder production facilities, in order to minimise the risk of contamination and disease. This enables the Company to minimise antibiotic usage.

These measures include:

- keeping chickens within indoor production facilities;
- employing multi-site farming;

- disinfecting vehicles entering production areas;
- regularly monitoring the health of livestock and employees; and
- providing the means to trace each batch of chickens back to its production facility.

Unlike many other producers that acquire eggs or chicks from third-party suppliers, MHP's chickens are typically hatched, grown-out and processed within a single chicken farm.

MHP also imposes strict hygiene standards on its franchisees and monitors compliance with these standards through continuous random inspections.

In addition, MHP complies with the high hygiene standards of its retail customers.

¹ Based on research conducted by InMind

MODERN TECHNOLOGY AND INNOVATION



Business Impact

- At the forefront of industry innovation
- Enables the manufacture of high-quality products
- Enables cost savings
- Optimisation of yields in grain growing operations
- Well-positioned to capitalise on the consumer-driven move towards healthier, higher quality food and convenience foods

MHP employs advanced technologies at its production facilities and Management believes that MHP's facilities are at the forefront of technological innovation in the industry. Much of MHP's production process is automated, which helps to ensure the manufacture of consistently high-quality products in a cost-effective manner. Management believes that the benefits of its modern equipment and advanced technologies are reflected in MHP's performance indicators including chicken survival rates and production costs.

MHP applies modern farming practices, supported by modern machinery, in its grain cultivation business, which helps optimise yields and reduce wastage and consumption of fuel.

The Company is also focussed on consumer-driven innovation. Management believes MHP was the first company to introduce a number of value-added products to the Ukrainian market, including its "Lehko!" line of convenience food products and meat snacks.

MHP has also been a leader in retailing and packaging innovation, such as in its branded outlets "Nasha Ribaba" and in the introduction of new ways of packaging chicken products to the market that extend the shelf-life of the product.

Management believes that these consumer-driven innovations address a shifting trend among consumer groups in Ukraine towards healthier, higher quality food and convenience foods.

HIGHLY FERTILE AGRICULTURAL LAND



Business Impact

- Approximately 370,000 hectares of leased land located in the black soil regions of Ukraine
- Highly fertile and naturally irrigated land
- Reduces associated costs

MHP leases agricultural land located in the highly fertile black soil regions of Ukraine. This land benefits from a considerable amount of rainfall per annum where irrigation systems are not needed thereby helping to control costs.

Black soil has a significant percentage of organic matter and Management believes that the quality of MHP's leased land plots enables it to minimise its fertiliser and fuel costs.

Under its vertically-integrated business model, MHP grows corn, sunflower and soybean to support its chicken production. Increasingly MHP also grows other grains, such as wheat and rape, for sale to third parties.

In 2017, MHP produced 1,999,095 tonnes of grain of which approximately 24% from the harvest was sold to third parties (2016: 2,351,491 tonnes of which approximately 17% from the harvest was sold to third parties). The c15% decline year-on-year was caused by challenging weather conditions which adversely affected MHP yields across all crops.

CHAIRMAN'S STATEMENT

MULTI-YEAR GROWTH PROFILE WITH INTERNATIONAL EXPANSION OPPORTUNITIES

Dear Shareholder,

It is a pleasure to report that MHP has continued to perform beyond industry benchmark standards in both production and financial measures over the past year¹.

Our unique vertically-integrated business model has enabled the Company to continue its track record of delivering stable and high profit margins in what is a highly cyclical industry and in challenging market conditions. MHP continues to demonstrate strong financial management and performance. During 2017, the Company delivered EBITDA of US\$ 459 million and an EBITDA margin of 36%; EBITDA margins have consistently been in the 28% to 42% range over the past 15 years.

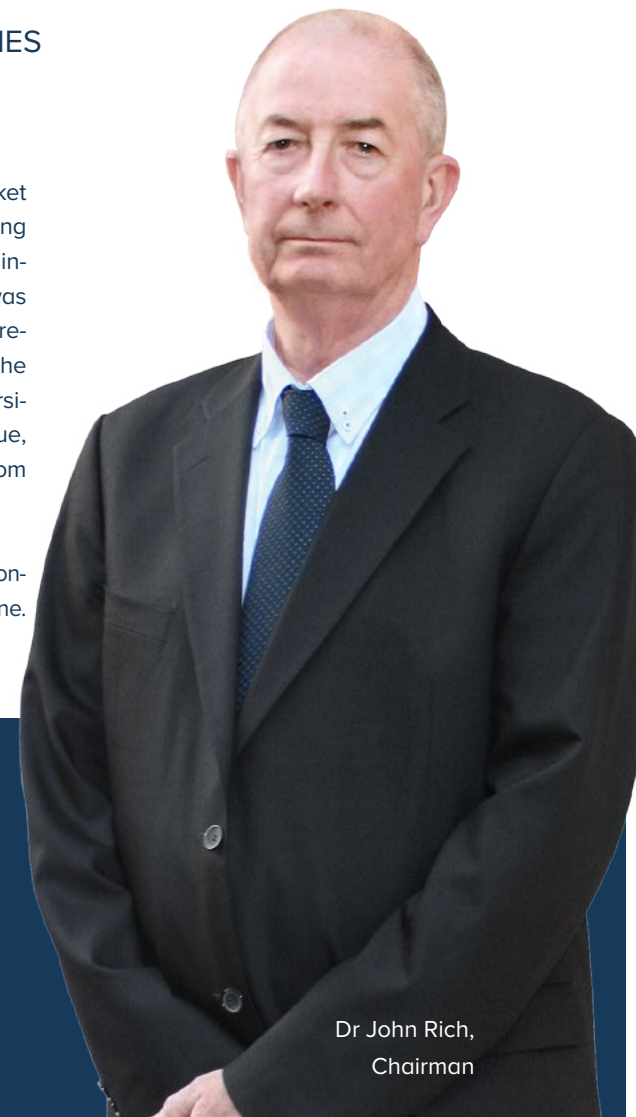
During the year, prices in the global poultry market recovered from levels seen in 2016, partly reflecting changes in global poultry trade flows due to avian influenza and the food-safety crisis in Brazil. MHP was well-positioned to capitalise on the opportunities presented by these changing market dynamics. During the year the Company also continued its strategy of diversifying its export portfolio and increasing export revenue, which now represents 57% of Group revenue, up from 56% in 2016.

In line with the Company's stated objectives, MHP has continued to invest in growing the domestic market in Ukraine.

¹ Indicators by which performance is measured include 100% capacity utilisation, 86% of poultry volumes produced at greenfield capacities, EBITDA of 36%.



THE GROUP'S FUNDING STRATEGY IS TO ENSURE ONGOING ACCESS TO APPROPRIATE SOURCES OF CAPITAL TO SUPPORT INVESTMENT IN ITS BUSINESS AS AND WHEN REQUIRED. CONSISTENT WITH ITS STRATEGY OF HAVING MINIMUM SHORT-TERM DEBT AND THE MAJORITY AS LONG-TERM DEBT, THE COMPANY RAISED US\$ 500 MILLION THROUGH A SUCCESSFUL BOND ISSUE IN MAY 2017.



Dr John Rich,
Chairman

2018 will see further investment in our Vinnytsia production facilities; when completed in 2022 this will increase the Group's annual poultry production capacity to approximately 840,000 tonnes. As part of our strategy of continuing sustainable growth, we expect both to increase production capacity further and to diversify our production and marketing bases in key markets through carefully targeted acquisitions. The Company has a clear and focussed route-to-market strategy towards Europe and the GCC and MENA regions.

The Group's funding strategy is to ensure ongoing access to appropriate sources of capital to support investment in its business as and when required. Consistent with its strategy of having minimum short-term debt and the majority as long-term debt, the Company raised US\$ 500 million through a successful bond issue in May 2017. The Company is considering a return to the markets in early 2018 with another bond issue to further extend debt maturities. The Company expects to keep the ratio of net debt to EBITDA below covenant (3.0x), in order to maintain strong interest cover and to continue to ensure that the Group's export revenue comfortably exceeds its foreign currency debt service obligations.

Dividend policy

The Board has recommended a final dividend of US\$ 0.7492 per share, amounting to US\$ 80 million (2017: US\$ 80.0 million, US\$ 0.7492 per share). The Board remains committed to a dividend policy that maintains a balance between the need to invest in further development at the Company and the right of shareholders to share in the net profit of the Company.

Corporate governance

The Company upholds the highest standards of ethics, governance and compliance procedures across the Group and these high standards of conduct are embedded in the way we do business and in our values.

The Board and the Company aspire to achieve full compliance with the UK Corporate Governance Code over the coming years. In the meantime, the Company has applied the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange as a benchmark for its approach to corporate governance. The Governance section of this Report, beginning on page 62, sets out our procedures and reports on our compliance record throughout the year.

Board developments

During the year, there were a number of changes to the Board.

Philippe Lamarche stepped down from the Board in October 2017 following a six-year tenure as a Non-Executive Director. I would like to thank Philippe for his contribution to the Board over this period and to wish him well for the future.

William Richards was appointed to the Board as a Non-Executive Director in October 2017. Mr Richards brings with him a wealth of experience in the food industry, in particular in manufacturing and distribution.

The Nominations and Remuneration Committee focussed during the year on, amongst other priorities, senior management succession planning and incentive plans for senior executives to ensure that we continue to achieve the optimum structure in our management compensation arrangements.



US\$
80
million

Recommended dividend
for 2017

During 2018, a priority for the Committee is to increase the representation of independent Non-Executive Directors on the Board. The Board recognises the importance of diversity and we will continue to take this into account in our recruitment process whilst ensuring that candidates are selected on merit and that there is an appropriate range and balance of skills, experience and background on the Board.

A programme of continuing education for Board members is in place for 2018 in line with recent recommendations by the London Stock Exchange.

Our people

Our highly skilled and knowledgeable workforce, comprising 27,589 employees, is our greatest asset. We are committed to investing in our people's development and to providing opportunities for them to realise their full potential. We strive to build upon our reputation as a high-quality, responsible employer of choice.

We regard the health and safety of our employees and those working on our premises as paramount and creating and fostering a safe working environment is one of our highest priorities.

We are also committed to investing in the people and the communities around us and undertake a number of social projects and cooperation programmes with local universities and schools.

Corporate Responsibility

All areas of our business are guided by international standards of corporate responsibility.

The Company is committed to maintaining and continually seeking to improve its market-leading animal welfare and product quality standards. Our vertically-integrated business model allows for complete control over every stage of the production process. This enables us to maintain strict biosecurity standards encompassing animal welfare, quality control and assurance, halal certification and food safety. The Company is also committed to a minimum antibiotic policy. This is an increasingly important factor for consumers and a key differentiator relative to many of the Company's peers.

In 2018, MHP plans to develop certain aspects of its approach that will build on its established food safety and quality track record, the important contribution made by its local community investments in the areas where it operates in Ukraine, and its success in managing corruption risks. In particular, it plans to improve its environmental approach, develop its related levels of transparency through enhanced technical reporting and to continue the process of developing its stakeholder communications.

Looking forward

2018 is expected to be another year of progress for MHP as the Company continues to deliver on its strategy of organic growth both in Ukraine and in export markets, with the potential for this to be supplemented by selective acquisitions in Europe and the GCC and MENA regions.

With poultry prices predicted to be relatively stable in 2018, the Company is well-positioned to deliver further increases in revenue and profit based on increasing production and sales across all Business Segments.

27,589

employees

Our highly skilled and knowledgeable workforce

*Dr John Rich, Chairman
06 March 2018*

CEO'S STATEMENT

A YEAR OF SIGNIFICANT PROGRESS WITH GROWTH VISIBILITY

Markets and environment

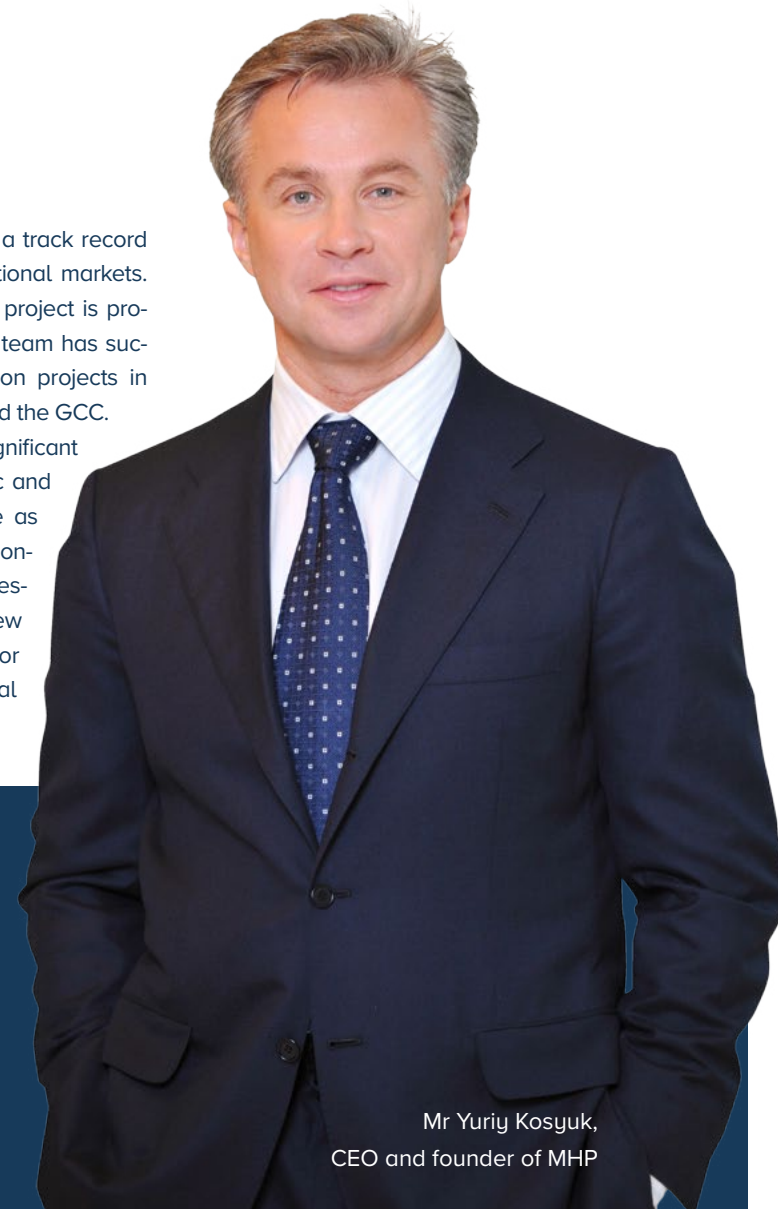
Our stakeholders are aware that, particularly in recent years, MHP has operated in a challenging domestic environment. I am pleased to note, however, that decisive reforms over recent years are continuing to boost confidence, leading to significant improvements in both the geopolitical and macroeconomic situations in Ukraine and to a steadily improving economy. Against this backdrop, MHP has become progressively stronger, successfully managing the challenging macro and market conditions and diversifying its footprint and product lines to bring more resilience to the Company's own performance.

MHP has continued to build on its track record of strong profitability and growth, powered by its low cost leadership, in turn driven out of its vertically-integrated model.

Our experienced management team has a track record of delivery in both domestic and international markets. Construction of Phase 2 of the Vinnytsia project is progressing on budget and on time and the team has successfully launched international expansion projects in Europe (the Netherlands and Slovakia) and the GCC. International expansion is strategically significant for MHP because it diversifies geographic and currency risk exposure at the same time as creating new market opportunities. We continue to investigate opportunities for domestic and international growth, exploring new markets and developing new products for our customers, supplemented by potential targeted acquisitions.



2017 HAS BEEN A YEAR OF FURTHER PROGRESS FOR MHP. IN PARTICULAR, IT HAS SEEN THE COMPANY STRENGTHEN ITS PROFESSIONALISM, PRODUCTIVITY AND EFFICIENCY WHILST FURTHERING STRATEGIC INITIATIVES DESIGNED TO SECURE FUTURE GROWTH AND CAPITALISE ON A BROAD SPECTRUM OF MARKET OPPORTUNITIES.



Mr Yuriy Kosyuk,
CEO and founder of MHP

Performance highlights in 2017

During the year, we consolidated our position as the leading industrial producer of chicken meat in Ukraine. Domestic poultry sales were stable at 311,743 tonnes, while our Nasha Riaba™ brand achieved 95%¹ customer recognition.

We continue to show excellent progress in export sales. Growing our international reach is a strategic imperative for MHP and in 2017 we exported around 220,983 tonnes of chicken meat to 63 different countries, representing year-on-year growth of 16%.

Our financial results were in line with Management expectations, with EBITDA of US\$ 459 million and an EBITDA margin of 36%. Exports of poultry, oils and grains generated a further increase in hard currency revenues, growing by 15% year-on-year to US\$ 732 million.

Business review

MHP made significant progress on several fronts during the year.

Efficient production

All of our production facilities, as usual, continued to work at full capacity to meet customer demand. Production at our Poultry and Related Operations Segment became 'smarter' (more efficient in terms of cost management) and less volatile due to the skills and experience of our management team. Our Grain Growing Segment deployed new and advanced technologies such as drones and satellite imaging for smarter management of the application of seeds and fertilisers; this puts us in a leadership position within our peer group in Ukraine. And our Other Agricultural Segment has continued to expand its range of products to satisfy consumer demand and taste, showing 6% y/y growth in sales.

Future growth

Our next major poultry project – Phase 2 expansion of the Vinnytsia complex – is on schedule. The first production sites are expected to be launched in mid-2018 with production in the year expected to increase by approximately 40,000 tonnes of chicken meat, which will mainly be earmarked for export.

International expansion

At the same time as sustaining and growing our leading position in the domestic market, we continue to explore and develop export market opportunities worldwide. We have already established new partnerships in the EU and MENA and introduced market targeting for specific products in those regions. To improve access to EU markets, in the first quarter of 2017 the Company invested US\$ 3 million in commissioning a chicken processing operation in Slovakia. Together with our Dutch facility (commissioned in 2016), this will enable MHP to increase its services to European customers by offering them different products and allowing better control of export volumes. We have also made significant progress in our sales and distribution office in the UAE. Further opportunities for international expansion continue to be actively explored.

Eurobond issue

In May 2017, MHP successfully completed a Eurobond transaction involving the repurchase of US\$ 245 million Eurobonds 2020 and issue of a new US\$ 500 million 7-year Eurobond with a coupon of 7.75%. The issue was more than three times oversubscribed, which demonstrates MHP's strong relationship with its bondholders and their trust in the Company.

US\$ 459 million

EBITDA in 2017

us\$ 3 million

invested in commissioning a chicken processing operation in Slovakia

¹Source: Unaided recognition, InMind, Brand health tracking

Our people and their development

Expanding on the Chairman's Statement, our skilled and professional workforce is integral to our success and they are achieving new, ambitious goals. We are committed to maximising opportunities not only for the Company but also for the people working with us and we have in place a number of programmes to further this goal. Our "New Horizons" programme delivers remote training and also enabled us to update our assessment process. As we seek to recruit the best new people to the Company, we focus, amongst other things, on identifying those demonstrating drive and self-motivation. Our search is helped significantly by our "Start Your Career with MHP" project for university students. In addition, in 2017 we took decisive steps to strengthen our senior management teams at production sites, in Sales and Marketing, IT, R&D and Project Management.

Corporate responsibility

MHP made significant enhancements to its approach to sustainability matters in 2017. The developments included securing the required capital to construct a second state-of-the-art biogas facility which will benefit waste management, reduce energy usage and significantly cut the Company's greenhouse gas emissions. The Company also introduced a new local stakeholder engagement plan to provide a more formal framework for its established local stakeholder engagement procedures, further develop dialogue with local communities, publicise, and streamline grievance mechanisms and make it easier for employees of the Company to be contacted.

MHP underlined its existing commitment to robustly addressing corruption risk by becoming a member of a new organisation, the Ukrainian Network of Integrity and Compliance (UNIC). This is a national network of companies whose members have pledged to work together to enhance the reputation of business in Ukraine. The Company's deter-

STRATEGY AND PRIORITIES FOR 2018**Our strategy can be found in the Management Report on page 78.**

However, I'd like to take the opportunity here to draw out a few tenets of that strategy and with that, to highlight some of our priorities for the year:

- To continue construction of Phase 2 of the Vinnytsia project and launch the first production sites with the ultimate aim of lifting total production levels to around 840,000 tonnes of poultry meat per year by 2021–2022e.
- To continue our focus on exports, cementing our position in existing territories and investigating the development potential of new opportunities.
- To continue to investigate potential targeted acquisitions and joint ventures, both in the EU and MENA regions.
- To maintain our investment in people and build on our reputation as a high-quality, responsible and transparent employer.
- To promote the corporate responsibility credentials of the Group, with a particular focus on environmental management (including alternative energy projects), animal welfare, food safety and quality, investment in the Company's people and their welfare, risk management, community investment and stakeholder engagement.

mination to support the development of new business in the country was underlined by its partnership with Radar Tech – an organisation that aims to create an ecosystem to promote the implementation of ideas, growth and development of different sectors within Ukraine's economy.

Outlook

In 2018, I expect MHP to continue to strengthen its position as a leading international agro-industrial company with good growth visibility in both domestic and international markets. I am confident that our strategy will continue to generate sustainable growth enabling us to deliver strong operational and financial performance in 2018 and beyond.

840,000

tonnes per year

target total chicken meat production
by 2021–2022e

Mr Yuriy Kosyuk, CEO
06 March 2018

BUSINESS MODEL

OUR ASSETS

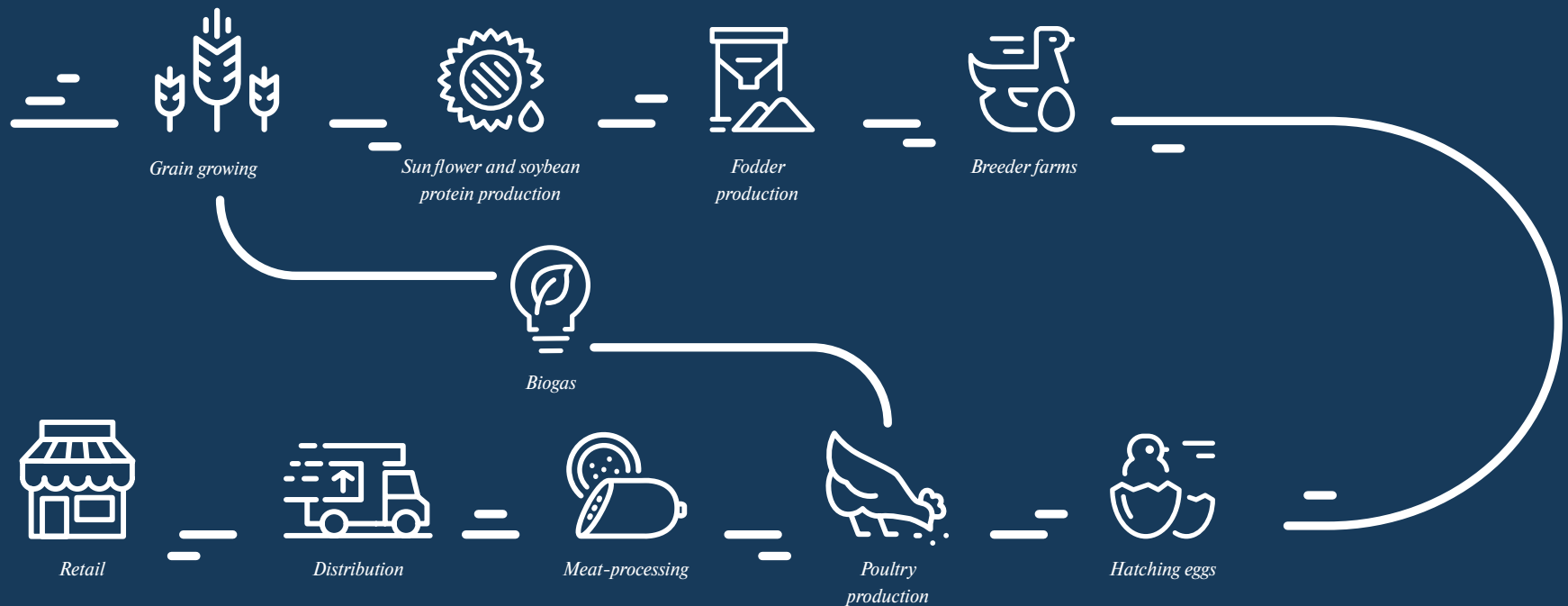
- Highly skilled and knowledgeable workforce
- State-of-the-art facilities and advanced technologies
- Stable capital base
- Strong and established position in Ukraine
- Established intellectual property and brands

OUR INVESTMENT CASE

- Uniquely integrated business
- Export markets development potential
- Organic growth supplemented by potential targeted acquisitions
- Talented and experienced management team
- Track record of profitability and growth

WHAT WE DO

- Crop growing
- Sunflower and soybean oil production
- Hatching egg production and incubation
- Poultry rearing and further processing
- Domestic and export poultry sales, distribution and marketing



UNIQUE INTEGRATED BUSINESS MODEL

REDUCED EXPOSURE TO RAW MATERIAL PRICE VOLATILITY DUE TO HIGH LEVEL OF VERTICAL INTEGRATION AND DIVERSIFICATION OF SALES



370,000 HECTARES
OF LAND UNDER
CONTROL IN UKRAINE

GRAIN

MHP cultivates one of the largest landbanks in Ukraine in Sumy, Kyiv, Vinnytsia, Ternopil, Khmelnytsky, Lviv, Ivano-Frankivsk, Dnipro and other regions. MHP's yields are significantly higher than average for Ukraine.



338,675 TONNES
OF VEGETABLE OILS

SUNFLOWER & SOYBEAN OIL

MHP produces vegetable oils as a by-product of its fodder production and sells them for export. This constitutes one of the Company's sources of hard currency revenue.



3 FODDER MILLS,
OWN GRAIN STORAGE
FACILITIES

FODDER

MHP is self-sufficient in fodder.



426 MILLION
HATCHING EGGS
PER ANNUM

HATCHING EGGS

MHP is self-sufficient in hatching eggs and produces them at two breeding farms.





3 POULTRY COMPLEXES:
FROM HATCHING TO REARING
AND PROCESSING

POULTRY

MHP produces 86% of its poultry meat at two greenfield poultry complexes, which were built during the last 10 years and accredited by the EU.



35,899 TONNES
OF MEAT-PROCESSING
PRODUCTS

MEAT-PROCESSING

MHP is one of the leading producers of meat-processing products in Ukraine with a wide range of high quality products.



**SECOND BIOGAS
PROJECT**

BIOGAS PROJECT

As part of its commitment to growing the Company's self-sufficiency in energy to ensure lower costs and to behave as a responsible corporate citizen, in 2017 MHP started to build its second biogas project of 12 MW capacity.



1,937 BRANDED POINTS OF
SALE IN UKRAINE

SALES

In Ukraine MHP's poultry sales are relatively evenly balanced between supermarkets (37%), branded points of sale (34%). The balance in sales (29%) goes to meat-processing and HoReCa.



100% OF POULTRY
DELIVERED TO CUSTOMERS
WITHIN 24 HOURS

DISTRIBUTION

MHP has 11 distribution centres in Ukraine, which allow the Company to deliver the product fresh and on time.





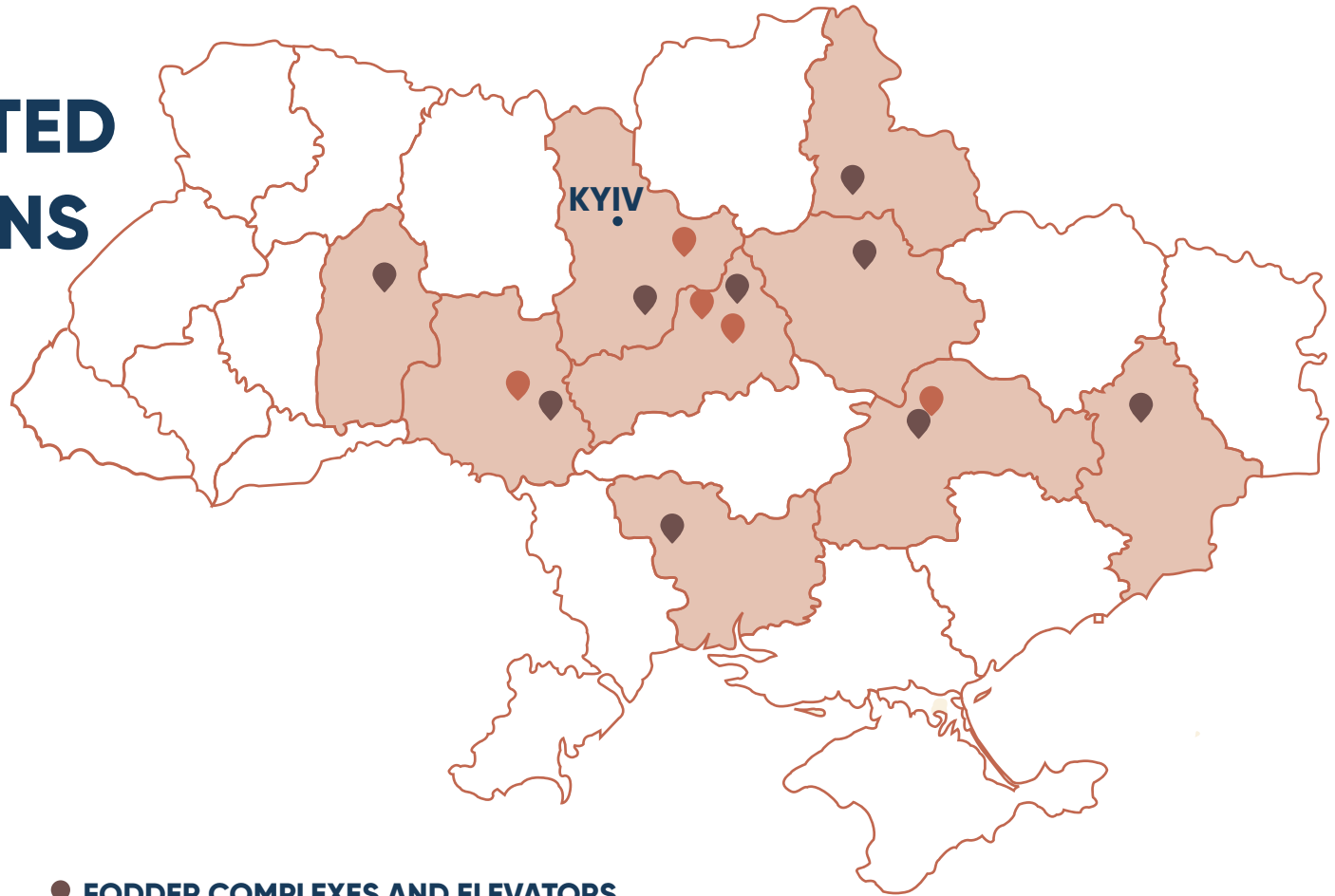
BUSINESS REVIEW

25	Poultry and Related Operations Segment
30	Grain Growing Segment
33	Other Agricultural Segment
35	Key Performance Indicators
37	Financial Policies
40	Financial Review
49	Risk Management
57	Corporate Responsibility

POULTRY AND RELATED OPERATIONS SEGMENT

566,242 tonnes

of poultry meat produced in 2017



POULTRY

- *Vinnitsia Poultry Complex (greenfield, broiler)*
- *Myronivka Poultry Complex (greenfield, broiler)*
- *Oril Leader – broiler complex*
- *Starynska Nova – breeding complex*
- *Peremoga Nova – breeding complex*

FODDER COMPLEXES AND ELEVATORS

- *Vinnitsia Fodder Complex (fodder plant, crushing plant, silo)*
- *Myronivka Fodder Complex (fodder plant, crushing plant, silo)*
- *Katerynopil Fodder Complex (fodder plant, crushing plant, extraction plant, silo)*
- *11 elevators*

11

distribution centres in Ukraine

220,983 tonnes

of poultry meat exported in 2017

Production

MHP enjoys a leading market position and high domestic brand recognition, with poultry products sold at premium prices. Chicken meat is produced at MHP’s facilities in four principal stages: production of hatching eggs; hatching; grow-out; and processing. MHP’s chicken production facilities include three principal chicken broiler complexes, two breeding farms and three fodder complexes.

In 2017, MHP’s chicken farms produced 566,242 tonnes of chicken meat (2016: 574,328 tonnes). Over 86% of MHP’s poultry was produced at the Company’s greenfield projects – the Vinnytsia and Myronivka poultry complexes.

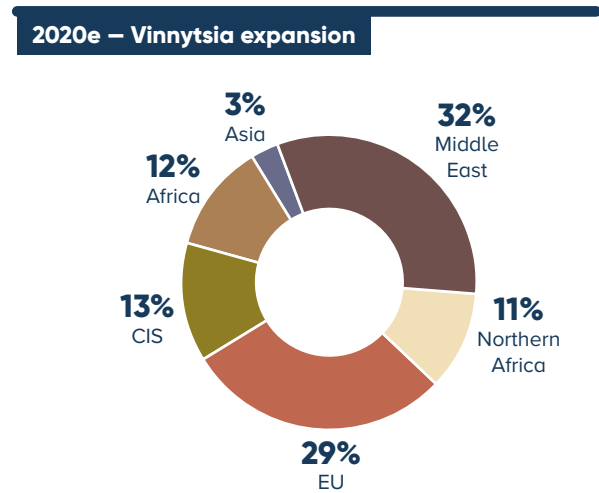
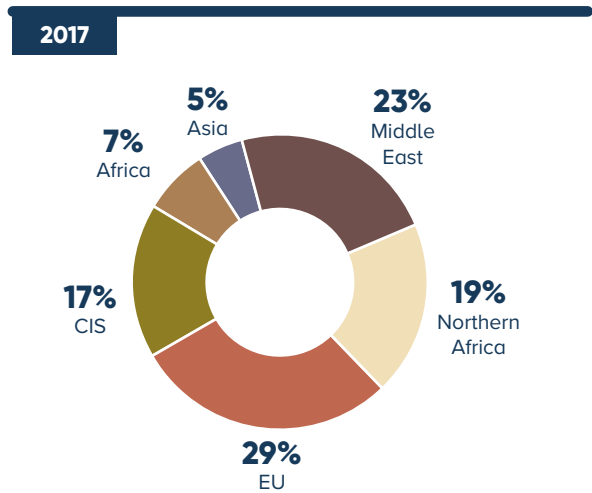
The fodder complexes include three sunflower crushing plants, one soybean extraction plant, and storage facilities for 1,585 million m³ tonnes of grain and 324,336 tonnes of plastic bags.

MHP produces an extensive range of chicken products, primarily chilled and some frozen. 11 Ukrainian distribution centres ensure the efficient delivery of fresh poultry products to customers. Sales of chilled chicken products are made direct to retailers (including supermarkets), branded partnership networks, food service customers (hotel, restaurant and cafeteria operators, or “HoReCa”) and producers of processed meat products. Substantially all of MHP’s chilled chicken products are sold under the “Nasha Riaba” brand.

400,000+ tonnes

targeted for export in 2020e

MHP’S POULTRY EXPORT EVOLUTION BY MARKET



24%

UAH poultry price increase year-on-year mainly driven by export prices



Poultry sales and prices

MHP sells 59% of its poultry products in Ukraine and 41% for export. At 532,727 tonnes of total poultry sales (2016: 534,356 tonnes), sales of fresh chicken remained relatively stable y/y, while sales of frozen chicken meat both on the domestic market and for export insignificantly decreased. The decrease in sales on the Ukrainian market was offset by an increase in exports.

In 2017, the average chicken meat price was UAH 35.63 per kg excluding VAT, 24% higher y/y (21% higher in US\$ terms). The increase in price was mainly driven by export price growth as a result of product mix optimisation undertaken by the Company in line with its export strategy.

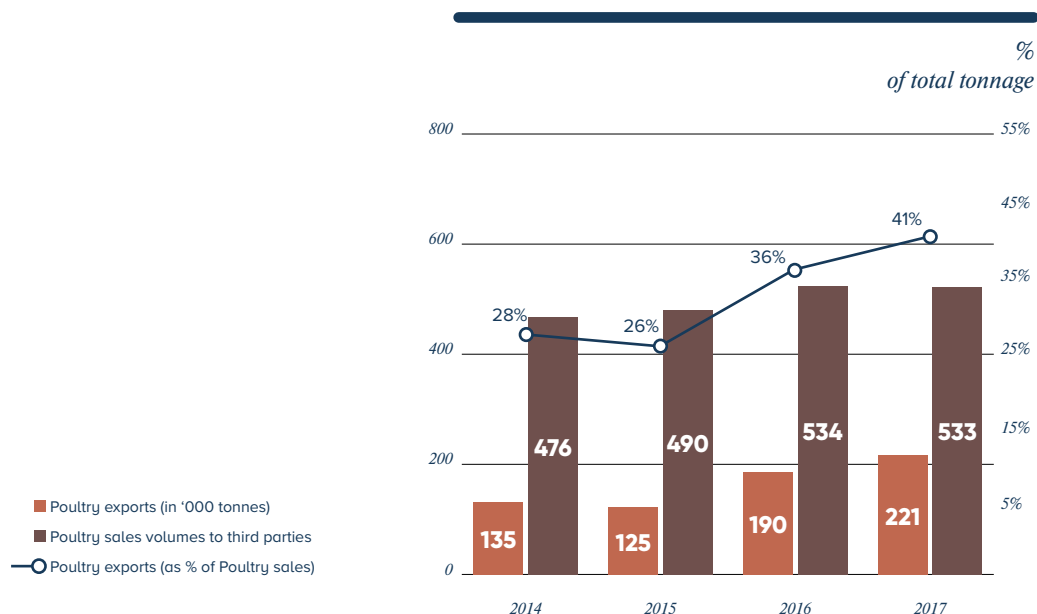
MHP is expanding its worldwide customer base in line with its international growth strategy. Serving large, attractive and growing international poultry markets decreases macro risks, creating new market opportunities and currency diversification.

During the last three years, the Company has significantly grown the export of frozen and fresh chicken products primarily to the GCC, the EU, Africa and Asia, with some sales to the CIS (no exports to the Russian Federation since February 2014). In 2017, total exports accounted for 220,983 tonnes of chicken meat (2016: 190,223 tonnes), a year-on-year increase of 16%.

EU expansion was achieved when MHP established its first processing (cutting) plants in close cooperation with long-term partners Jan Zandbergen BV in the Netherlands (2016), and WE Trade s.r.o. and subsidiaries in Slovakia (2017). These processing plants will allow MHP to increase its export services to distributors and customers and to exert greater control over export volumes. They also create the opportunity to provide European customers with commodity as well as packaged products for food service channels. In the first quarter of 2016 MHP invested circa US\$ 3.5 million in two cutting production lines at the facility in the Netherlands and the Company is investing approximately US\$ 3.0 million in four cutting production lines in Slovakia.

In line with its strategy of growing MHP's global footprint, a sales and distribution office was established in the UAE in 2016.

POULTRY EXPORT VOLUMES EVOLUTION



840,000 tonnes

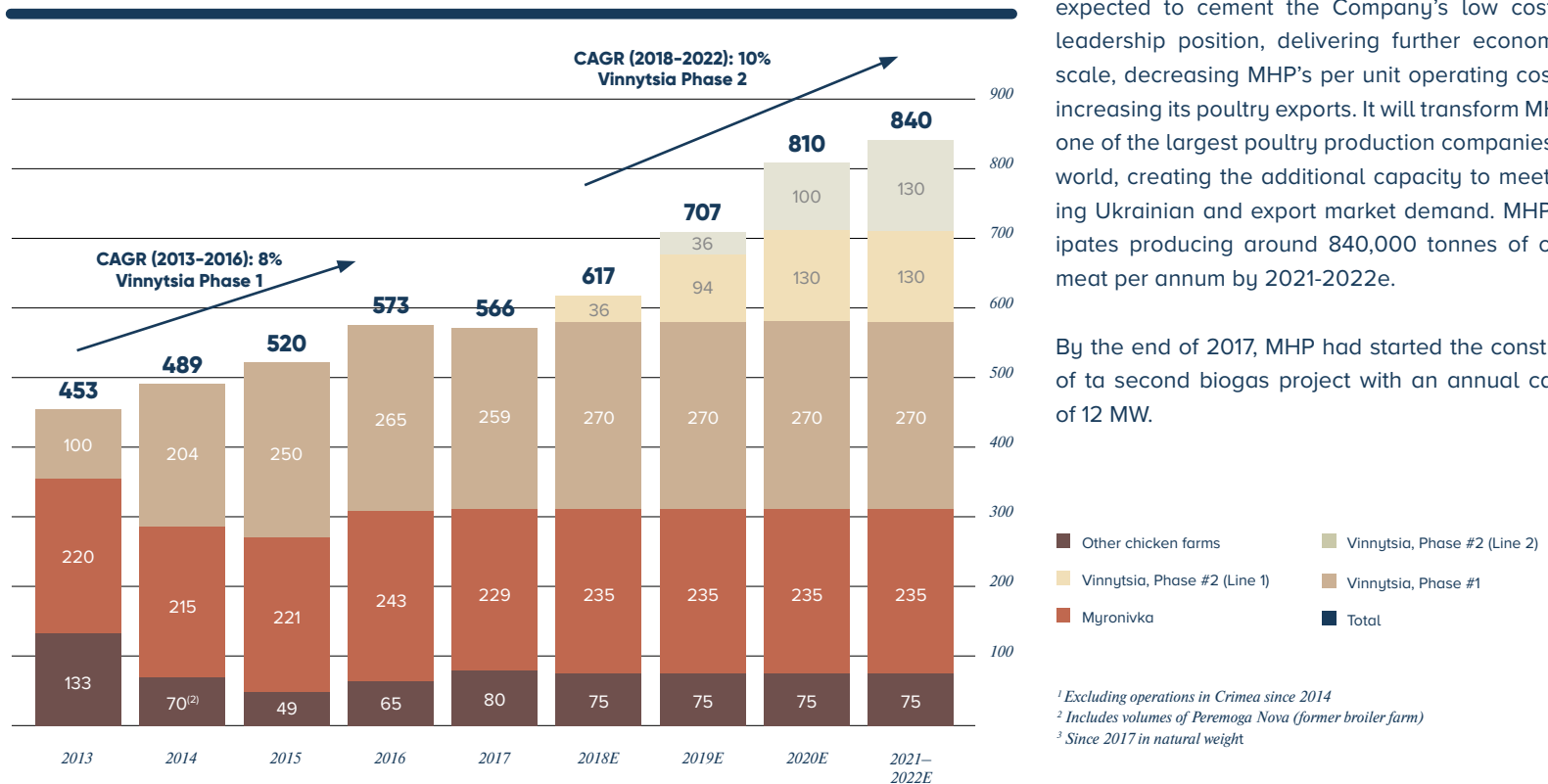
expected annual production of chicken 2021-2022e

Future growth

MHP has a multi-year growth profile. Building out from this platform, in 2017, the Company commenced construction of Phase 2 of the Vinnytsia complex. When finished, this will comprise two lines delivering an annual chicken meat capacity of 260,000 tonnes, doubling the facility's current production capacity.

In keeping with MHP's vertically-integrated business model, the Vinnytsia complex will incorporate different production sites such as a fodder plant, a sunflower crushing plant, a hatchery, rearing sites, a slaughter house as well as infrastructure and social responsibility projects (e.g. roads, community engagement projects). MHP expects the first line to become operational in mid-2018 and to reach full capacity in 2020. Construction of the second line is scheduled to begin in 2018 with production expected to come online during the period 2018-2022.

PRODUCTION INCREASE SCHEDULE ('000 TONNES)^{1, 3}



Completion of Phase 2 of the Vinnytsia complex is expected to cement the Company's low cost base leadership position, delivering further economies of scale, decreasing MHP's per unit operating costs and increasing its poultry exports. It will transform MHP into one of the largest poultry production companies in the world, creating the additional capacity to meet growing Ukrainian and export market demand. MHP anticipates producing around 840,000 tonnes of chicken meat per annum by 2021-2022e.

By the end of 2017, MHP had started the construction of a second biogas project with an annual capacity of 12 MW.

¹ Excluding operations in Crimea since 2014
² Includes volumes of Peremoga Nova (former broiler farm)
³ Since 2017 in natural weight

311,393 tonnes

of sunflower oil sold in 2017

Fodder production

The fodder conversion rate at a chicken farm depends largely on the quality and composition of the meal. MHP produces its own mixed fodder at three mills using agricultural commodities such as corn, sunflower and soybean. These mills support the Poultry and Related Operations Segment with an aggregate annual mixed fodder production capacity in 2017 of approximately 1,525 million tonnes (2016: 1,694 million tonnes).

The key operational processes at the fodder mills include purchasing ingredients (mainly from MHP's grain growing enterprises), weighing and conducting laboratory analysis of ingredients, manufacturing, concluding laboratory analysis of fodder and delivery to MHP's breeding and chicken farms. A wide variety of fodder types are produced with various vitamin and protein contents meeting the age requirements and covering the needs of chickens at the breeding farms and chicken farms. All fodder produced by MHP is granulated and ingredients are thoroughly mixed so that the components are dispersed throughout the meal. A proportion of granulated fodder is crushed so that it can be fed to younger chickens. To ensure freshness and quality, MHP transports the meal to its chicken and breeder farms on its own trucks.

MHP is fully self-sufficient in corn for fodder production. Since the launch in 2015 of the soybean oil extraction plant at the Katerynopilsky complex, 41% of the soybean protein requirements come from MHP's own harvest. The use of contemporary crushing technology to extract a substantial amount of sunflower protein meal means that 18% of the sunflower seed requirement now comes from the Company's own crops.

Sales of vegetable oil

Vegetable oil is a by-product of fodder production, specifically sunflower and soybean oil. MHP views vegetable oil exports as one of the "natural hedge" routes to accumulating hard currency revenues, protecting the Company from local currency volatility.

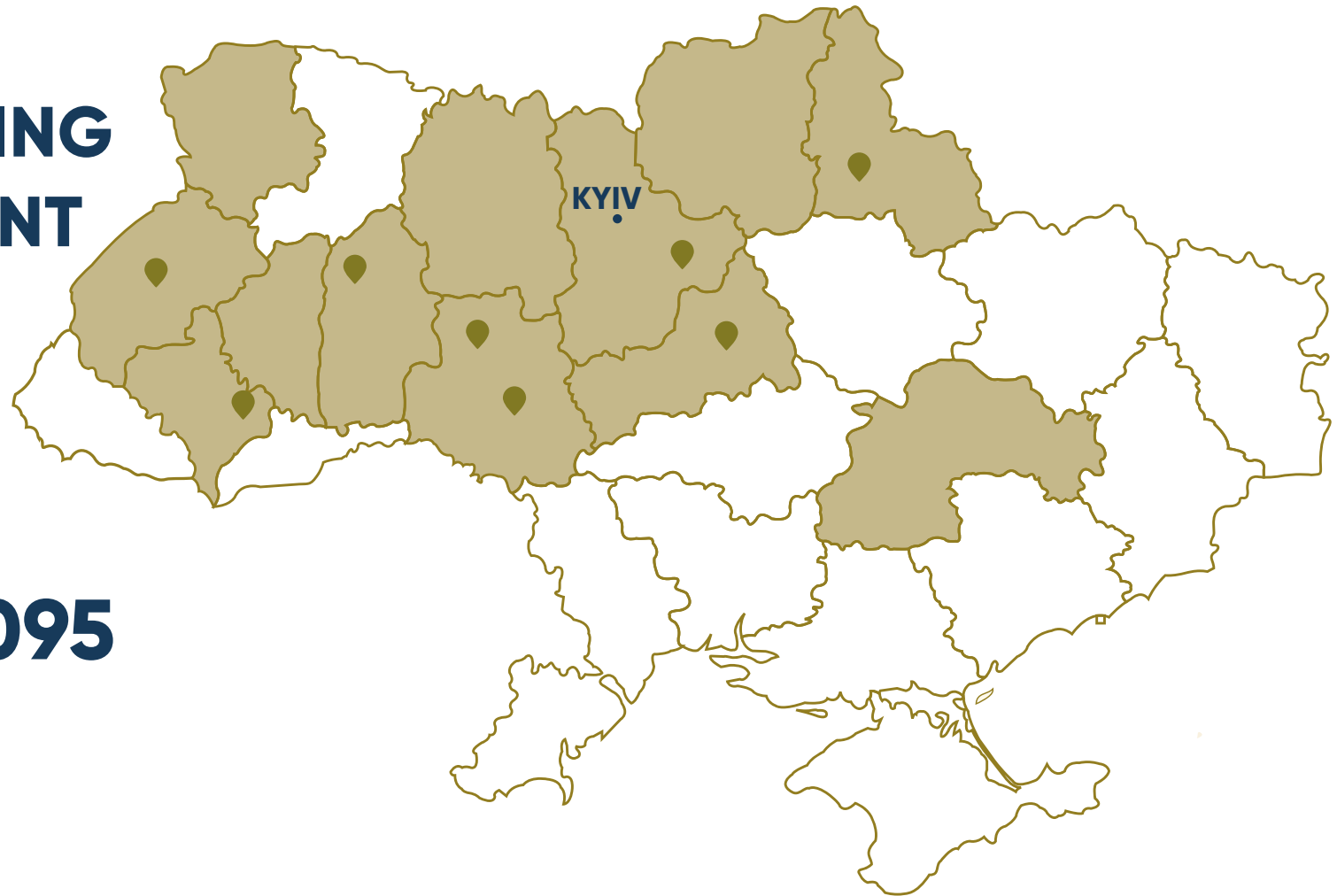
MHP sold approximately 311,393 tonnes of high-quality unrefined edible sunflower oil in 2017 (2016: 342,240 tonnes) and approximately 27,282 tonnes of soybean oil in 2017 (2016: 34,150 tonnes). Sales of soybean oil are down 20% as a result of pushing a contract for approximately 6,000 tonnes of oil back to January 2018. MHP also sells soybean cake to third parties.

In 2017, all MHP's vegetable oils were sold through international traders to export markets, generating total revenues of US\$ 256 million (2016: US\$ 286 million), down 10% mainly driven by decreased prices and volumes.

In addition to oil production, which is a by-product, the boiler houses at our fodder plants burn sunflower husks to make steam used in the production of mixed fodder. This not only reduces the Company's requirements for natural gas, but also its overall production costs. In addition, husks are recycled as bedding at its chicken production facilities, once again enabling MHP to reduce its production costs and improve the biosecurity of its operations.



GRAIN GROWING SEGMENT



1,999,095

tonnes

of crops gathered

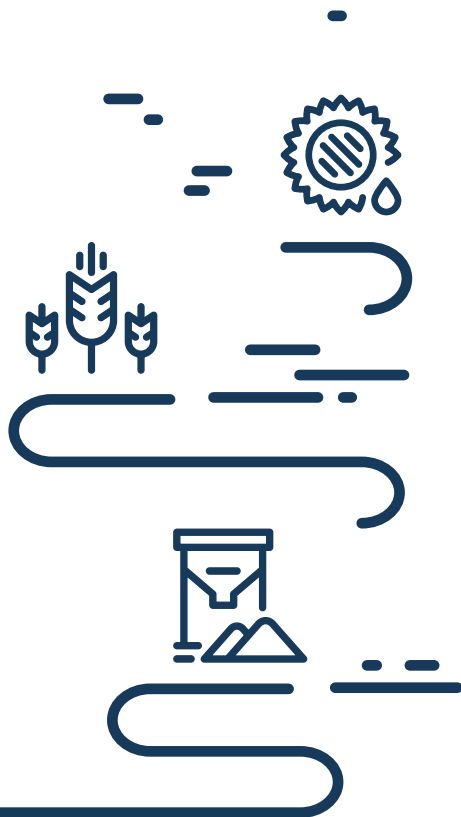
GRAIN

- Zernoproduct
- Urozhay
- Zakhid-Agro
- Urozhayna Kraina
- Ridny Kray
- Perspective
- Agro-S
- Agrokryazh

356,080

hectares

harvested in 2017



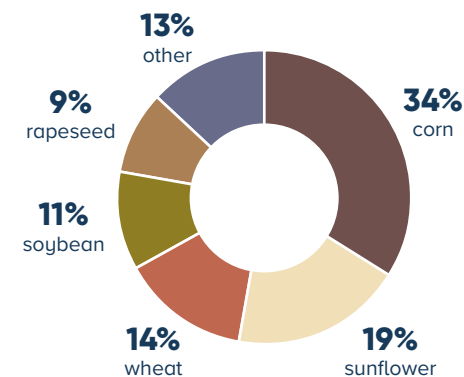
¹Including barley, rye, sugar beet, sorghum and other crops and excluding land left fallow as part of crop rotation

Grain growing operations

As at 31 December 2017, MHP leased approximately 370,000 hectares of land at its eight principal grain growing facilities where it cultivates corn, sunflower and soybean to support its chicken operations and, to an increasing extent, other grains such as wheat and rapeseed for sale to third parties.

In 2017 the Company harvested 356,080 hectares of land and gathered 1,999,095 tonnes of crops, around 15% lower than in 2016 mainly due to challenging weather conditions which adversely affected MHP yields across all crops.

% OF CROPPED AREA



RESULTS OF MHP'S HARVEST CAMPAIGNS FOR 2017 AND 2016

	2017		2016	
	Production, tonnes	Cropped hectares	Production, tonnes	Cropped hectares
Corn	893,149	121,908	1,056,887	123,350
Wheat	293,765	48,676	379,693	58,813
Sunflower	205,079	68,931	218,049	67,399
Rapeseed	104,782	31,968	68,325	20,069
Soybean	82,793	39,684	98,607	40,771
Other ¹	419,527	44,913	529,930	44,598
Total:	1,999,095	356,080	2,351,491	355,000

24%export sales of crops from
the total harvest in 2017**US\$ 117**million of revenue from
Grain Growing Segment
in 2017

Most of the corn, wheat, soybean and sunflower produced by MHP is used at the Company's own fodder production facilities in order to produce feed for chicken. The excess corn and wheat as well as rapeseed and other crops was sold to domestic and international traders. In 2017, which covers the 2016-2017 harvest, MHP sold all the rapeseed, approximately 45% of the wheat and approximately 15% of the corn it produced to Ukraine-based traders for export using forward-dated and SPOT contracts mainly denominated in US dollars. Export sales of crops from the total harvest in 2017 was 24% (2016: 17%).

Sales of grains (excluding intersegment sales) accounted for US\$ 117 million in revenue, representing 9% of total MHP's revenue in 2017 (2016: US\$ 85 million, 7%).

MHP uses chicken litter to meet part of its needs for the fertiliser used in grain production.

MHP operates a precision farming approach to increase productivity and achieve long-term operational efficiency. Each field is cultivated with different crops on a fixed rotation plan which ends with a fallow period to allow the soil to recover. The crop rotation scheme ensures that land is cropped without exhausting the soil and the use of chemical fertilisers and pesticides is minimised. As a result, the hectareage under cultivation for the various grain types varies from year to year.

In line with MHP's strategy, the Company is planning to increase its landbank to 500,000 ha of land in the mid-term.

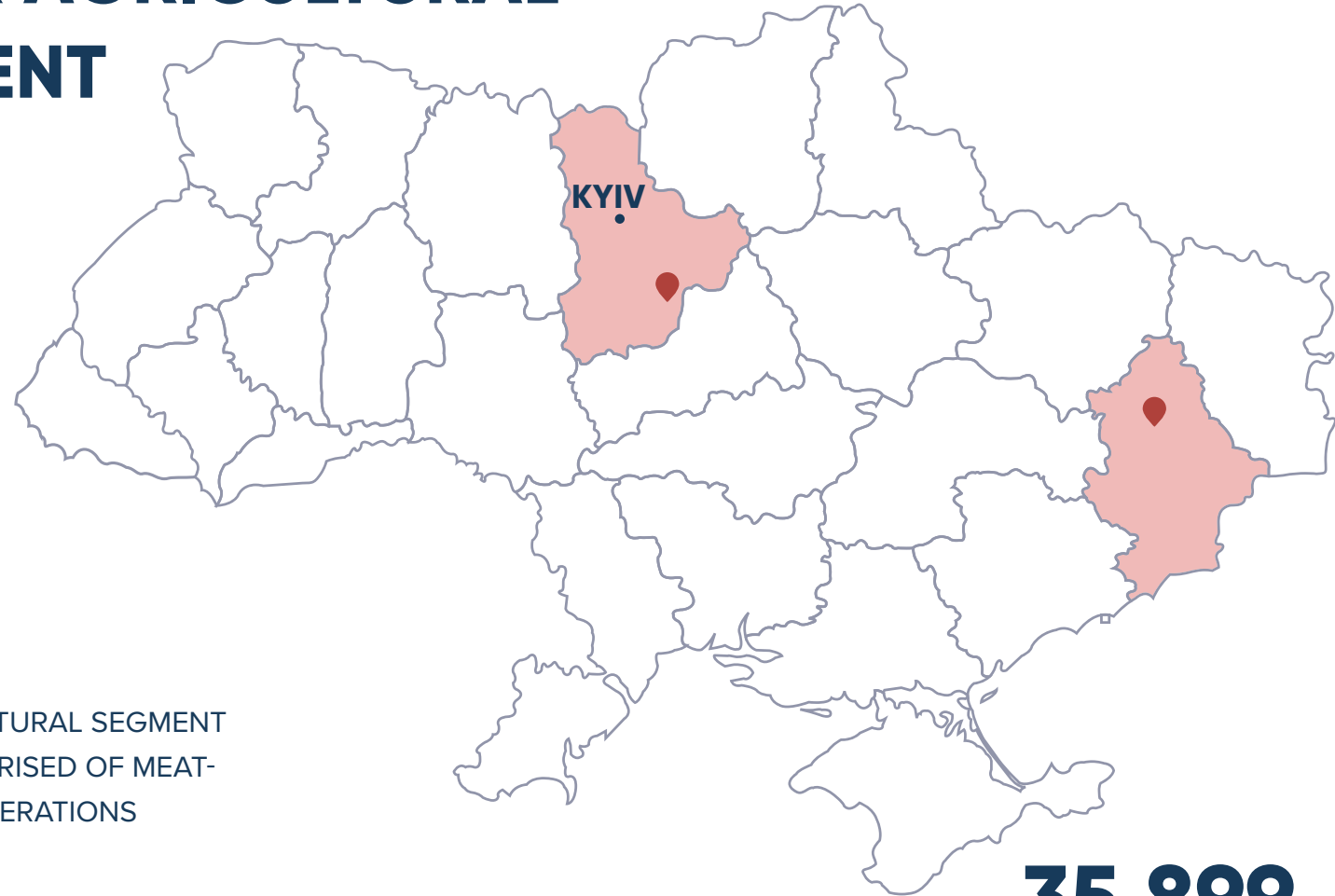
MHP'S YIELDS ARE CONSISTENTLY AMONGST THE HIGHEST IN UKRAINE

	2017		2016	
	MHP's average ¹	Ukraine's average ²	MHP's average ¹	Ukraine's average ²
Corn	7.3	4.9	8.6	5.7
Wheat	6.0	4.2	6.5	3.9
Sunflower	3.0	2.1	3.2	2.2
Rapeseed	3.3	2.9	3.4	2.6
Soybean	2.1	1.9	2.4	1.9

¹Tonnes per hectare

²MHP yields are net weight,
Ukraine yields are bunker weight

OTHER AGRICULTURAL SEGMENT



OTHER AGRICULTURAL SEGMENT IS MAINLY COMPRISED OF MEAT-PROCESSING OPERATIONS

● MEAT

- *Ukrainian Bacon*
- *Myronivsky Meat Processing Plant Lehko (MMPP)*

35,899
tonnes

Sales of processed meat products in 2017

According to SSCU, MHP is the leader in a highly fragmented meat-processing market, accounting for approximately 14% of all sausage and cooked meats produced in Ukraine in 2017.

Sausages and cooked meat

Ukrainian Bacon is an integrated production facility for meat products located in the Donetsk region. The Company produces and sells to the national market various types of chicken, pork and beef sausages, including frankfurters, smoked and semi-smoked sausages, ham and other cooked meat products. Processed meat products are sold under the “Baschinsky” brand only in Ukraine. There are currently 268 SKUs in the “Baschinsky” range.

Sales volumes of processed meat products increased by 6% year-on-year to 35,899 tonnes in 2017, mainly as a result of a new product promotion strategy and advertising campaign for the product range and the “Baschinsky” brand. Average sausage and cooked meat prices in 2017 increased by 16% to UAH 49.17 per kg excluding VAT.

Convenience food products

MHP is one of the leading Ukrainian industrial producers of chicken, pork and beef convenience food products, sourcing more than 50% of the meat requirements from internally produced chicken meat. In 2017 MHP produced around 13,808 tonnes of convenience products, of which around 15% was exported.

Myronivsky meat-processing plant “Lehko” produces a wide assortment of products at affordable prices which are available in supermarkets and at “Nasha Riaba” branded franchise outlets. The “Lehko!” range consists of a variety of convenience food products ranging from raw (marinated) to pre-cooked. There are currently over 250 SKUs in the convenience food range including the “Lehko!” brand (for example chicken nuggets and “Chicken Kiev” etc), the “Baschinsky” brand (chilled cooked products), the “Sytni” brand and raw salted non-branded products for export. MHP supplies “Yum! Brands” with poultry products for the Kentucky Fried Chicken (“KFC”) restaurants in Ukraine. All MHP’s poultry meat for KFC is processed at the “Lehko” plant.



268
SKUs

in the “Baschinsky” range
including sausages,
frankfurters, meat balls
and shish kebabs



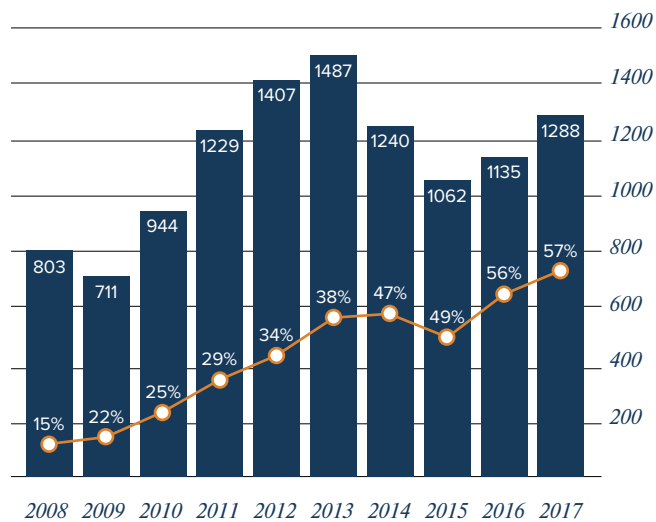

250
SKUs

in convenience food

KEY PERFORMANCE INDICATORS

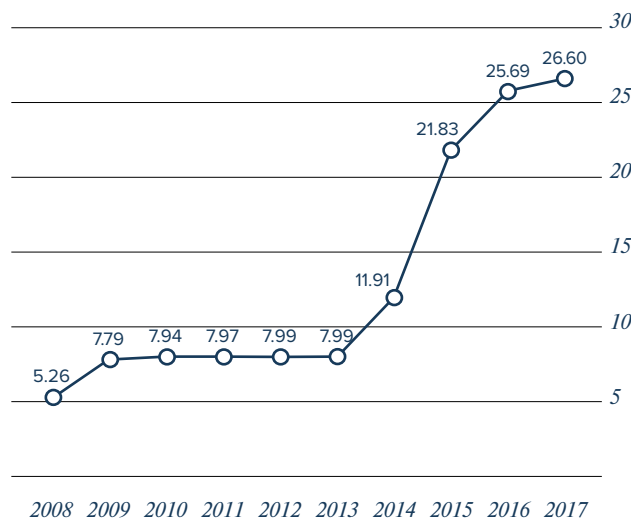
Despite challenging macroenvironment in Ukraine, including significant depreciation of the Ukrainian currency (Hryvnia, UAH), fluctuations in the commodity prices on international markets, MHP's performance was strong significantly supported by growing share of hard currency revenue. MHP will continue to grow its exports and hard currency generation in the future.

REVENUE



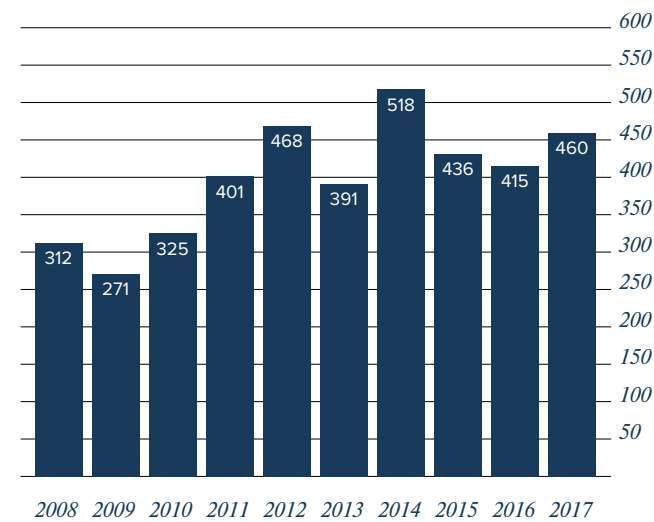
CURRENCY RATIO

UAH per U.S.\$1.00, average



EBITDA

US\$ million

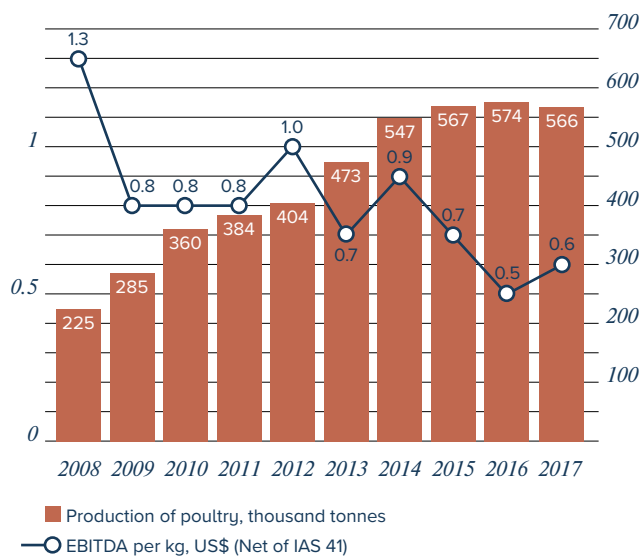


■ Revenue, US\$ million
 ○ Export revenue, % of total revenue

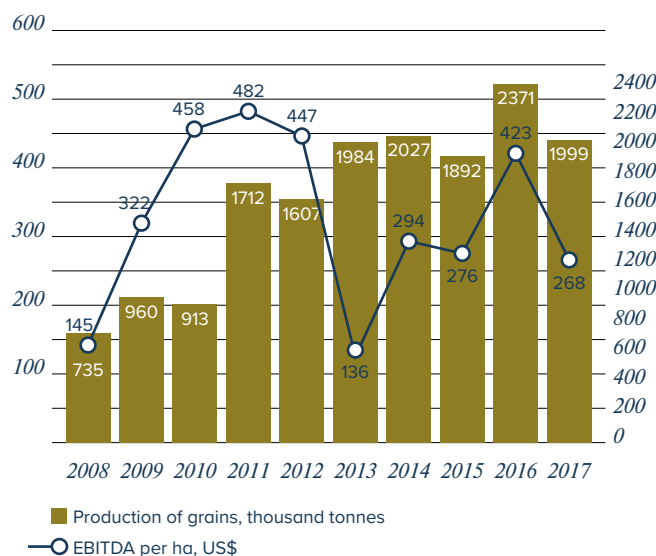
KEY PERFORMANCE INDICATORS BY SEGMENT

The Company is based on a vertically-integrated business model, which allows it to receive high and sustainable profitability during the whole its history. Smart management, state-of-the-art greenfield projects, efficient cost control and innovations – all results in MHP’s top class profitability margins.

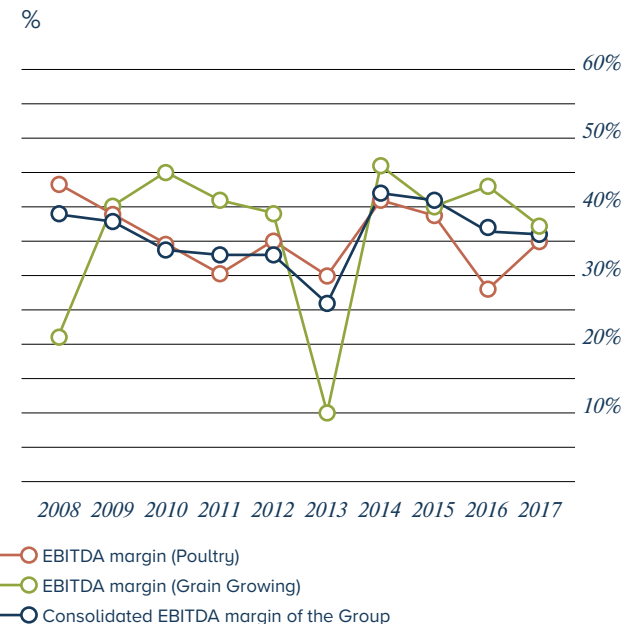
POULTRY SEGMENT



GRAIN GROWING SEGMENT



CONSOLIDATED AND BY SEGMENT EBITDA



FINANCIAL POLICIES

MHP HAS INCLUDED CERTAIN MEASURES IN THIS REPORT THAT ARE NOT MEASURES OF PERFORMANCE UNDER IFRS, INCLUDING EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (“EBITDA”) AND LAST TWELVE MONTHS EBITDA (“LTM EBITDA”) BOTH AT A CONSOLIDATED AND AT A SEGMENT LEVEL

Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are presented in this Report because the Directors consider them to be important supplemental measures of the Group’s financial performance.

Additionally, the Directors believe these measures are frequently used by investors, analysts and other interested parties to evaluate the efficiency of the Group’s operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements.

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

LTM Adjusted EBITDA is defined as Adjusted EBITDA for the prior 12 consecutive months ending on such date of measurement; LTM Adjusted EBITDA for the year ended 31 December equals Adjusted EBITDA. “Adjusted EBITDA” is derived by adjusting EBITDA

(as defined above) for losses/gains on impairment/reversal of impairment of property, plant and equipment, net, losses on disposals of subsidiaries, other expenses, net and foreign exchange (loss)/gain, net. The Group believes that this measure is more useful in evaluating of the financial performance of the Company and its subsidiaries than traditional EBITDA due to the exclusion items that management considers not to be representative of the underlying operations of the Group.

The Group’s Segment measure in the consolidated financial statements is defined as “Segment result” and represents operating profit by Segment before unallocated corporate expenses, being the Segment measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of Segment performance. Within the Management Report, the reported Segment result is adjusted for the amount of depreciation and amortisation per Segment in order to present “Segment Adjusted EBITDA” to external users, which MHP feels is a more commonly-used external metric familiar to investors.

Net debt is defined as bank borrowings, bonds issued and finance lease obligations less cash and cash equivalents.

The Group believes that net debt is commonly used by securities analysts, investors and other interested parties in the evaluation of a Company's leverage. Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are measures of MHP's operating performance that are not required by, or presented in accordance with IFRS. Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are not measurements of MHP's operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit, seg-

ment result or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of MHP's liquidity.

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

RECONCILIATION OF ADJUSTED EBITDA

<i>US\$ thousand</i>	Year ended 31 December 2016	Year ended 31 December 2017
(Loss)/Profit for the year from continuing operations	68,786	230,255
Income taxes	(13,080)	(17,118)
Finance costs	106,843	108,399
Finance income	(2,234)	(3,472)
Depreciation and amortisation expense	98,567	93,225
EBITDA	258,882	411,289
<i>Adjustments:</i>		
Loss on impairment/reversal of impairment of property, plant and equipment, net	1,443	3,607
Other expenses, net	9,289	8,077
Foreign exchange loss/(gain), net	145,217	35,615
Adjusted EBITDA	414,831	458,588

RECONCILIATION OF NET DEBT

Calculation of net debt was aligned with definitions used for the purpose of assessment of compliance with debt covenants provided in respective loan agreements. Thus, the accrued interest which has been included previously as part of the carrying amount of bank borrowings, bonds issued and finance lease obligations has been excluded from the amount of total debt. The comparative information for the year ended 31 December 2016 has been restated accordingly by the way of reducing previously reported amount of net debt in the amount of USD 1,258,091 thousand by the accrued interest in the amount of USD 22,731 thousand. As of 31 December 2017 and 2016 the leverage ratio was as follows:

<i>US\$ thousand</i>	Year ended 31 December 2016	Year ended 31 December 2017
Bank borrowings	496,374	175,734
Bonds issued	725,361	970,088
Finance lease obligations	13,625	11,450
Total debt	1,235,360	1,157,272
<i>Less:</i>		
Cash and cash equivalents	(154,570)	(125,554)
Net debt	1,080,790	1,031,718

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

RESULTS BY SEGMENT

Year ended 31 December 2017					
<i>US\$ million</i>	Poultry Segment	Grain Growing Segment	Other Agricultural Segment	Eliminations	Consolidated
External sales	1,050	117	120	–	1,288
Sales between business segments	37	192	0	(229)	–
Total revenue	1,088	309	120	(229)	1,288
Segment results	307	66	15	–	388
Add back					
Depreciation and amortisation	60	30	3	–	93
Segment EBITDA before unallocated expenses	367	95	19	–	480

FINANCIAL REVIEW

HOW THE COMPANY PERFORMED IN 2017

Operations

- Poultry production volumes reached 566,242 tonnes, down by 1% y/y (2016: 574,328 tonnes).
- The average chicken meat price increased by 24% y/y to UAH 35.63 per kg (2016: UAH 28.44 per kg) (excluding VAT).
- Chicken meat exports increased by 16% to 220,983 tonnes (2016: 190,223 tonnes) as a result of increased exports mainly to countries in the EU and the MENA.
- The Company established a processing plant in Slovakia as part of its export strategy.

Financials

- Revenue of US\$ 1,288 million, increased by 13% year-on-year (2016: US\$ 1,135 million), mainly driven by an increase in poultry prices.
- Export revenue amounted to US\$ 732 million, 57% of total revenue (2016: US\$ 635 million, 56% of total revenue), driven by an increase in poultry exports.
- EBITDA margin decreased to 36% from 37%; EBITDA increased to US\$ 459 million from US\$ 415 million.
- Net profit for the period is US\$ 230 million, compared to profit US\$ 69 million for 12M 2016, including US\$ 36 million (2016: US\$ 145 million) of non-cash foreign exchange translation loss.

(in million US\$ unless indicated otherwise)	2017	2016	% change ¹
Revenue	1,288	1,135	13%
IAS 41 standard gains/(losses)	21	39	-46%
Gross profit	396	346	14%
Gross profit margin	31%	30%	1 pps
Adjusted operating profit²	365	317	15%
Adjusted operating profit margin	28%	28%	0 pps
Adjusted EBITDA	459	415	11%
Adjusted EBITDA margin	36%	37%	-1 pps
Net profit before foreign exchange differences	266	214	24%
Net profit margin before forex gain/(loss)	21%	19%	2 pps
Foreign exchange gain/(loss)	(36)	(145)	-75%
Net profit (loss)	230	69	233%
Net profit margin	18%	6%	12 pps

¹pps – percentage points

²Adjusted operating profit from continuing operations before loss on impairment of property, plant and equipment
Average official FX rate: UAH/US\$ 26.5947 in 2017 and UAH/US\$ 25.5458 in 2016

General tax system – tax legislation changes

The majority of the Group's operating entities are located in Ukraine and therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group's companies incorporated in jurisdictions other than Ukraine were insignificant both in 2017 and 2016.

In 2017, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax. The Tax Code of Ukraine introduced an 18% income tax rate effective from 1 January 2014. The deferred income tax assets and liabilities as at 31 December 2017 and 2016 are measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse (please see Note 11, p.118).

State support for agricultural production in Ukraine

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

The government grants recognised by the Group as income in 2017 constituted US\$ 53 million (2016: US\$ 34 million) of VAT refunds.

On 30 December 2016 the President of Ukraine signed Law No. 1791 On Amendments to the Tax Code of Ukraine Regarding the Balancing of Budget Revenues in 2017. Law No. 1791 introduces changes to VAT administration for agricultural companies which previously enjoyed a special VAT regime. The special VAT regime for agricultural companies was terminated as of 1 January 2017.

However, in order to continue state support for agricultural companies, Law No. 1791 introduced budget subsidies for agricultural companies by amending the Law of Ukraine On State Support of Agriculture of Ukraine. The agricultural producers eligible for the subsidies include those involved in poultry production and animal farming, as well as fruit and vegetable farmers. For each agricultural producer, the amount of the subsidy is not to exceed the amount of VAT tax paid by the producers, and is distributed on a monthly basis.

US\$
53
million

– the government grants recognised by the Group as income in 2017

**Foreign currency exchange rates
and functional currency**

MHP's operating assets are located in Ukraine and consequently its revenues and costs are denominated principally in Ukrainian Hryvnias. Almost all of the Company's financial costs and currency denominated proceeds amounting to 57% of revenue are denominated in foreign currencies (primarily US dollars).

Management believes that MHP's exposure to currency exchange rate fluctuations as a result of foreign currency costs is hedged by its US dollar revenue earned from the export of vegetable oil, poultry and grain. In 2017 the Company generated US\$ 732 million of foreign-currency denominated revenue, up by 14% compared with the US\$ 635 million generated in 2016 driven mostly by an increases in poultry exports.

57%

of revenue

are denominated in
foreign currencies
(primarily US dollars)

THE GROUP'S EXPORT SALES TO EXTERNAL CUSTOMERS BY MAJOR PRODUCT TYPES IN 2017 AND 2016

US\$ thousand	2017	2016
Chicken meat and related products	334,385	243,725
Vegetable oil and related products	259,054	295,596
Grain	108,815	80,990
Other agricultural products	30,012	14,409
	732,266	634,720

The functional currency for the Group's companies is the Ukrainian Hryvnia (UAH), however, for the convenience of stakeholders, MHP presents its financial

statements in US dollars (US\$), using quarterly average and historical exchange rates.

RELEVANT EXCHANGE RATES

Currency	Closing rate as at 31 December 2017	Average for 2017	Closing rate as at 31 December 2016	Average for 2016
UAH/USD	28.0672	26.5947	27,1909	25,5458
UAH/EUR	33.4954	30.0128	28.4226	28.2828
UAH/RUB	0.4870	0.4560	0.4511	0.3832

SEGMENT PERFORMANCE

POULTRY AND RELATED OPERATIONS SEGMENT

(in million US\$, unless indicated otherwise)	2017	2016	% change*
Revenue	1,051	954	10%
– Poultry and other	795	668	19%
– Vegetable oil	256	286	-10%
IAS 41 standard gains/(losses)	29	5	472%
Gross profit	311	276	13%
Gross margin	30%	29%	1 pps
Adjusted EBITDA	367	267	37%
Adjusted EBITDA margin	35%	28%	7 pps
Adjusted EBITDA per 1 kg (net of IAS 41)	0.64	0.49	31%

* pps – percentage points

Segment revenue for 2017 increased by 10% y/y mostly due to increases in the price of chicken meat, partly offset by lower price and sales volumes of vegetable oil.

IAS 41 standard gain/(loss) reflects the net change in the fair value of biological assets and agricultural produce. IAS 41 standard gain in 2017 amounted to US\$ 29 million mainly as a result of increases in the price of chicken meat and the fair value of parent stock due to increases in global market prices for hatchery eggs.

The gross profit of the Segment for 2017 increased by 30% y/y mainly as a result of an increase in sales price which was partly offset by increased production costs, reflecting higher prices of grain consumed as well as higher payroll costs.

EBITDA for the period increased mostly in line with the increase in gross profit. An additional positive impact was attributable to an increase in government grant income due to amendments in the Tax Code of Ukraine that became effective from 2017.

The revenue of the Segment increased by

10%

GRAIN GROWING SEGMENT

(in million US\$ unless indicated otherwise)	2017	2016	% change
Revenue	117	85	38%
IAS 41 standard gains	(12)	32	-138%
Gross profit	66	107	-38%
EBITDA	95	150	-37%
EBITDA per 1 hectare	267	423	37%

The Segment's revenue for 2017 amounted to US\$ 117 million compared with US\$ 85 million in 2016. This increase is mainly attributable to larger volumes of crops exported in 2017 as a result of the better harvest in 2016 compared to 2015, a significant part of which was sold in 2017.

IAS 41 standard loss for 2017 amounted to US\$ 12 million. The loss represents the effect of the revaluation of agricultural produce (sunflower, corn, wheat and soybean) remaining in stock as at 31 December 2017. This decrease in IAS 41 value is mainly related to lower stocks as at 31 December 2017 compared to 2016 due to lower yields and production volumes in 2017.

Segment EBITDA for 2017 has decreased by 37% compared to 2016 due to both: lower yields of main crops as a result of unfavorable weather conditions; and increased costs reflecting higher prices of seeds for growing, as well as higher land lease, energy and payroll expenses.

US\$
117
million

The segment's
revenue for 2017

OTHER AGRICULTURAL SEGMENT

(in million US\$ except margin data)	2017	2016	% change ¹
Revenue	120	97	24%
– Meat processing	67	55	22%
– Other ²	53	42	26%
IAS 41 standard gains	4	2	100%
Gross profit	19	16	19%
Gross margin	16%	16%	0 pps
Adjusted EBITDA	19	16	19%
Adjusted EBITDA margin	16%	16%	0 pps

¹ pps – percentage points

² in 2017 the Group decided to include convenience food (previously reported in the Poultry and Related Operations Segment) in the Other Agricultural Operations in line with how the Group's chief operating decision maker evaluates the performance of the Segments. Comparative information was restated retrospectively.

Segment revenue in 2017 increased by 24% year-on-year, in line with the increases in sales volumes and prices for meat-processing and amounted to US\$ 120 million. The Segment's EBITDA increased to US\$ 19

million in 2017 compared to US\$ 16 million in 2016, an increase of 19% y/y mostly as a result of higher returns earned from meat-processing, cattle and milk operations.

Segment revenue in 2017 increased by

24%

GROUP FINANCIAL POSITION AND CASH FLOW

US\$ million	2017	2016
Cash from operations	333	273
Change in working capital	(120)	77
Net Cash from operating activities	213	350
CAPEX	(123)	(108)
Disposal of subsidiaries	76	–
Net cash used in investing activities	(47)	(108)
Cash used in financing activities	(113)	(60)
Dividends	(81)	(84)
Total financial activities	(194)	(144)
Total change in cash¹	(28)	98

¹ Calculated as Net Cash from operating activities plus Cash used in investing activities plus Total financial activities

Cash flow from operations before changes in working capital for 2017 amounted to US \$333 million (2016: US\$ 273 million). Excluding non-cash loss on disposal of subsidiaries, cash from operations before working capital changes increased during 2017 compared to 2016 mostly in line with the increase in net profit before foreign exchange differences.

The decrease in cash from changes in working capital during 2017 compared to 2016 is mostly related to lower investment in the stock of crops (sunflower)

designated for internal consumption as at 31 December 2016 compared to 31 December 2015, and subsequently more investment required in inventory during 2017 as well as reimbursement of VAT receivable in 2016 for previous periods and a decrease in prepayments of sunflower oil and rapeseed.

During 2017 total CAPEX amounted to US\$ 123 million mainly due to preparation works related to Phase 2 of the Vinnytsia poultry complex.

DEBT STRUCTURE AND LIQUIDITY

US\$ million	31 December 2017	30 September 2017	31 December 2016
Total Debt	1,157	1,150	1,236
Long-term debt	1,115	1,114	991
Short-term debt	42	36	245
Cash and bank deposits	(126)	(146)	(155)
Net Debt	1,031	1,004	1,081
LTM Adjusted EBITDA	459	444	415
Net Debt / LTM Adjusted EBITDA	2.25	2.26	2.60

As at 31 December 2017, the Company's debt structure had changed compared to 31 December 2016: the share of long-term debt in the total outstanding debt has increased to 96% from 80%. The weighted average interest rate was around 8%.

As at 31 December 2017, MHP's cash and cash equivalents amounted to US\$ 126 million. Net debt decreased to US\$ 1,031 million, compared to US\$ 1,081 million as at 31 December 2016.

The Net Debt / LTM EBITDA ratio was 2.25 as at 31 December 2017, well within the Eurobond covenant limit of 3.0x.

As a hedge for currency risks, revenue from the export of grain, sunflower and soybean oil, sunflower husks, and chicken meat are denominated in US Dollars, covering debt service expenses in full. Export revenue in 2017 amounted to US\$ 732 million or 57% of total revenue (US\$ 635 million or 56% of total revenue in 2016).

Dividends

On 14 March 2017, the Board of Directors of MHP SE approved payment of an interim dividend of US\$ 0.7492 per share for 2016, equivalent to approximately US\$ 80 million. The dividend was paid to shareholders on 29 March 2017.

On 06 March 2018, the Board of Directors of MHP SE approved payment of an annual dividend of US\$ 0.7492

per share for 2017, equivalent to approximately US\$ 80 million. The announcement will be published on 12 April 2018.

Outlook

Winter crops are in sufficiently good condition to provide the Company with a positive outlook for the 2018 harvest of winter wheat and winter rapeseed.

OUR MAIN DRIVERS FOR GROWTH IN 2018 WILL BE:

- An increase in production volumes of chicken meat by around 40,000 tonnes as a result of our capital investments in the expansion of the Vinnysia poultry project (Phase 2);
- An increase in export sales of chicken meat across all regions, which is expected to result in around 265,000 tonnes of chicken meat; and
- Construction of an alternative energy biogas project of 12 MW capacity at the Vinnysia poultry complex.



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

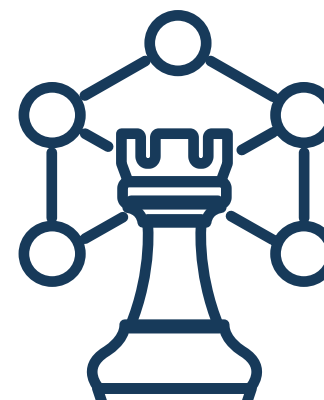
RISK MANAGEMENT

THE BOARD OF DIRECTORS AND MANAGEMENT TEAM VIEW RISK MANAGEMENT AS AN INTEGRAL PART OF VALUE CREATION, SO MHP'S RISK MANAGEMENT PROCESS IS CLOSELY ALIGNED WITH THE GROUP'S STRATEGY. SYSTEMATIC MANAGEMENT OF RISKS, INCLUDING CAREFULLY DESIGNED MITIGATION ACTIONS, IS A KEY ELEMENT IN OUR MANAGEMENT OF BUSINESS PERFORMANCE

How we manage risks

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

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



In 2017, a new Risks and Process Management Department was established to focus on identifying and managing risks and analysing and improving business processes.

PRINCIPAL RISKS

PRINCIPAL RISKS FACING THE GROUP AND MITIGATING ACTIONS

BUSINESS RISKS

FLUCTUATIONS IN GLOBAL PRICES FOR GRAINS AND POULTRY

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

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

MHP minimises the impact of fluctuations in world grain prices by growing internally 100% of the corn required for poultry feed production. The Company

has also adopted an innovative approach by replacing a significant proportion of expensive imported soybean protein with protein from sunflower seeds grown by MHP: 18% of sunflower seed and 41% of soybean requirements are produced internally with the balance procured from domestic growers.

Since 2015, soybean protein has been produced at the oil extraction plant located in Katerynopil.

FLUCTUATIONS IN DEMAND AND MARKET PRICES OF CHICKEN MEAT IN UKRAINE

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

Mitigations: The trend of low meat consumption in Ukraine in comparison to European countries still persists. Demand for chicken in Ukraine is expected to remain strong and to have further growth potential as beef and pork are mostly produced by households and small farms and are far more expensive to produce and purchase than chicken. Chicken meat is the most affordable kind of meat from both a price and diet perspective. MHP products are available for purchase through different sales channels at all times and the Company offers competitive trade terms to its customers.

For several years MHP has pursued a strategy of diversifying sales resulting in 41% of MHP's chicken meat now being exported to 63 different countries, reducing dependence on the domestic Ukrainian market.

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

OUTBREAKS OF AVIAN FLU AND OTHER LIVESTOCK DISEASES

Impact: Avian flu may result in:

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

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

- ongoing monitoring of avian flu cases worldwide followed by double-checking MHP's existing biosecurity systems based on identified reasons causing those cases;
- geographic separation of poultry rearing facilities with a remote distance between each facility;
- where any infected areas are identified, immediate actions are taken to limit the access of all visitors to MHP facilities;

- regular monitoring of poultry conditions, including analysis of indicators of their well-being and health and investigation of the quality of raw materials (litter, food, water) and products (carcasses of poultry);
- monitoring compliance with biosafety rules; and
- strict control over the implementation of preventive and control measures.

Since January 2017, the EU compartmentalisation procedures were introduced in Ukraine. This means that the emergence of avian influenza symptoms in poultry flocks in part of a country does not have to lead to a total trade suspension.

FLUCTUATIONS IN COMMODITY PRICES SUCH AS GAS, FUEL AND ENERGY

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

Mitigations: MHP ensures that its gas, fuel and energy costs each do not exceed 4% of the Group's total costs. Energy price risks are mitigated by a priority focus on developing renewable sources of energy and a consistent increase in the use of co-generation and alternative energy technology. Processing of sunflower leaves a huge amount of husks that are burned to generate steam heat for our fodder complexes.

UNFAVOURABLE WEATHER CONDITIONS

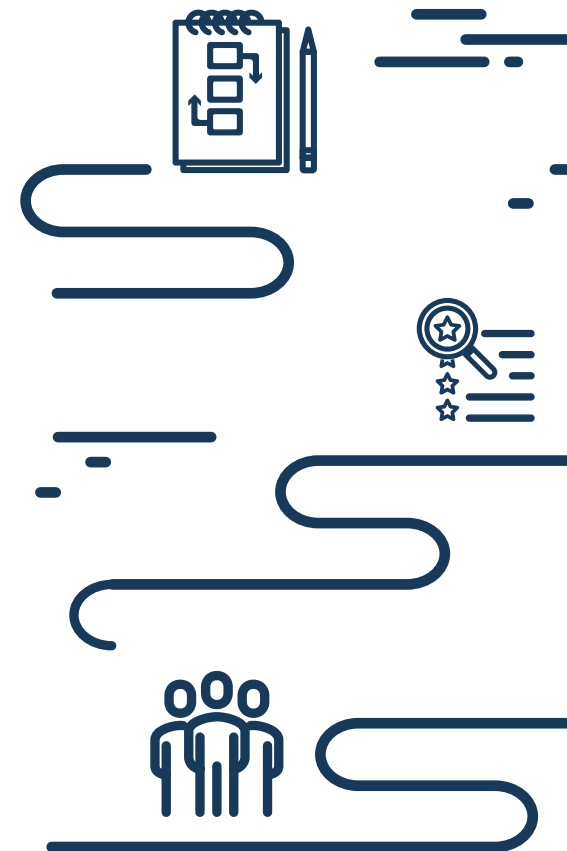
Impact: Extreme changes in temperature or rainfall including weather change in summer and winter could influence agricultural productivity as a whole and crop yield, harvesting and transportation costs in particular.

Mitigations: Ukraine's weather is generally temperate, with plenty of sunshine in summer and adequate rainfall. This combines with extremely fertile soil to create excellent growing conditions. In addition, MHP's Management team supports the use of modern technology to achieve a yield which is significantly higher than the average for Ukraine.

LABOUR MARKET DISRUPTION RISK

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

Mitigations: MHP maintains positive relations with employees and strives to build upon its reputation as a high-quality, responsible employer of choice. As a part of this MHP provides education and professional programmes for the younger generation. MHP also provides its "Personnel Reserve" and "New Horizon" training programmes for prospective and high performing employees. MHP also follows a strategic action plan to build and support schools in regions where its facilities operate.



FINANCIAL RISKS

FLUCTUATIONS IN FOREIGN EXCHANGE RATES AND INFLATION

Impact: MHP operates globally and has operations and transactions in different currencies. Devaluation of the UAH against the US dollars and changes in other exchange rates give rise to transaction exposure.

Mitigations: The majority of MHP borrowings is denominated in US dollars; the resulting exposure is hedged by earning 57% of total revenue in US dollars from the export of sunflower and soybean oils, chicken meat and grain. The amount of export sales will continue to increase with the further expansion of the Vinnytsia poultry complex and the strengthening of the Group's positions in export

markets. This will allow MHP to continue to service all dollar-denominated loans and payments for operating activities.

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

FLUCTUATIONS IN INTEREST RATES AND INFLATION

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

Mitigations: MHP monitors its interest rate exposures and analyses the potential impact of interest rate movements on its net interest expenses. MHP's debt portfolio is well balanced with an 85/15 share of fixed/ floating interest rates. The majority of MHP's borrowings are from foreign banks at rates lower than those available in Ukraine; a significant part of the Company's debt is also in the form of Eurobonds issued at fixed interest rates.

85/15

ratio of fixed/ floating
interest rates

CREDIT RISK

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

Mitigations: MHP has a diversified pool of customers. The amount of credit allowed to any one customer or group of customers is strictly controlled. Credit offered to major groups of customers, including supermarkets and franchisees, on average is between 5 and 21 days. To hedge the risk, MHP procedures require verification of counterparties' solvency prior to the signing of an

agreement with contractors. Policies and operating guidelines include limits in respect of counterparties to ensure that there is no significant concentration of credit risk.

Credit risks are managed by security paragraphs, which are included in agreements with customers.

LIQUIDITY RISK

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

Mitigations: MHP maintains efficient budgeting and cash management processes to ensure that adequate funds are available to meet its business requirements. MHP adopts a flexible CAPEX programme enabling capital projects to be deferred if necessary. MHP has an irreducible balance in hard currency on correspondent accounts and maintains a certain level of undrawn credit lines.



REPUTATIONAL
RISKS

COMMUNITY RELATIONS RISK

Impact: Failure to successfully manage relations with local communities and NGOs could disrupt operations and adversely affect the Group's reputation.

Mitigations: MHP cooperates closely with the local communities and other stakeholders in the regions in which it operates and implements programmes and initiatives to improve the quality and standards of living.

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

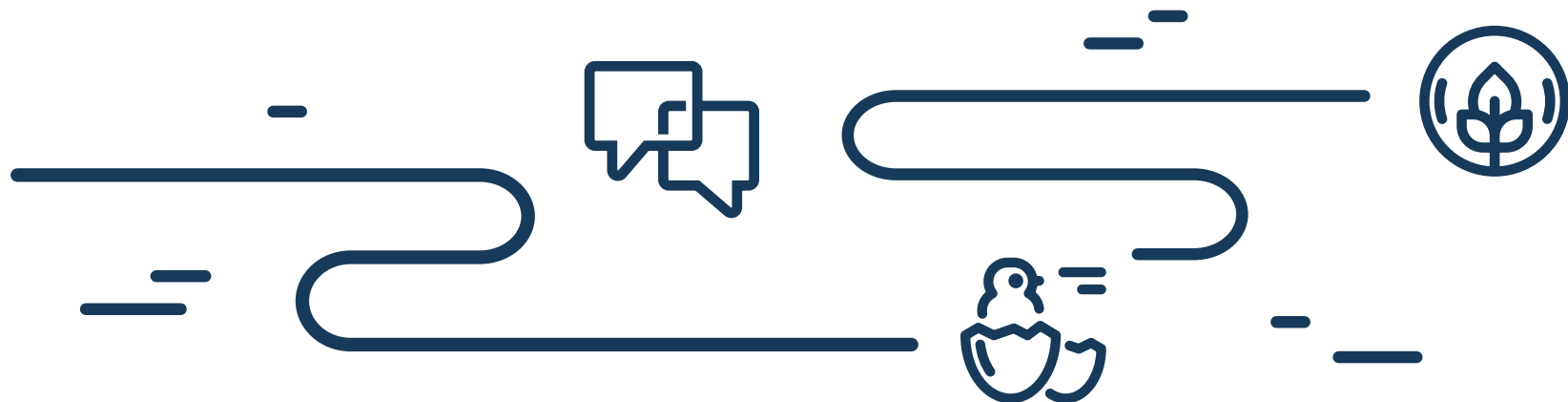
MHP business representatives organise roadshows for local citizens where they have the opportunity to ask questions.

MHP uses communication channels including personal communication, communication via the official website/ entities' websites/ social networks/ information boards/ corporate publications and media and enterprises tours.

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

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

MHP is targeting to decrease its carbon footprint on an annual basis.



COMPLIANCE RISKS

LEGAL AND REGULATORY RISK

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

Mitigations: MHP's Management team is actively monitoring regulatory developments in the countries where the Group operates.

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

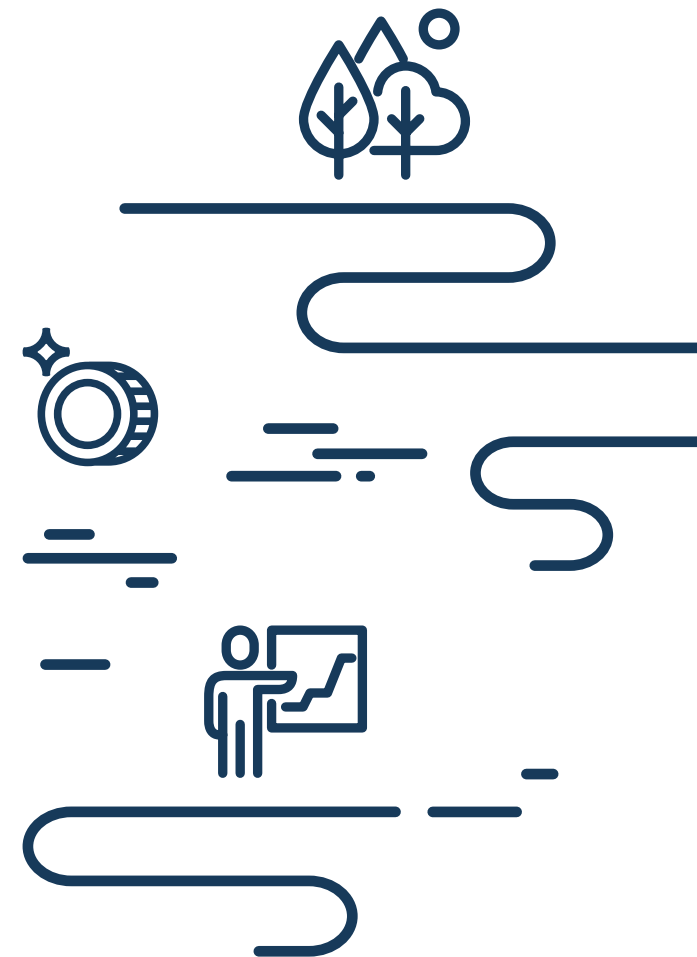
Moreover, MHP is consistently developing and integrating into its business practices standards such as Market Abuse Regulation and in Sustainability Reporting.

SOVEREIGN RISK

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

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

MHP minimises the political risks associated with its business presence in Ukraine by executing on its strategy to expand the territory of the Group's operations and access new and priority markets.



CORPORATE RESPONSIBILITY

Striving to achieve the highest international standards

MHP strives to achieve Corporate Responsibility best practice and has implemented a strategy to achieve this objective. This forms an integral part of the Company's long-term corporate vision and strategy of becoming a global leader in its business activities.

We believe that by acting as a responsible global citizen we will improve our performance, minimise business risk and enhance our reputation as a partner of choice.

This section of the Annual Report provides a summary of Corporate Responsibility information, performance highlights and case studies. The Company will publish a detailed Corporate Responsibility Report by the end of June 2018 which will address the information requirements of all MHP's material stakeholders and which will apply the latest applicable Global Reporting Initiative's (GRI) reporting framework.

Approach to responsible business

MHP's approach to responsible business focuses on seven important aspects of corporate responsibility:

- people;
- occupational health and safety;
- local communities;
- environment and climate change;
- product quality and safety;
- animal welfare; and
- business conduct.

In each of these seven areas MHP has set policies, put in place management systems, and measures and monitors its performance to ensure that it is meeting its own targets and its stakeholders' expectations. In addition, MHP is committed to maintaining a two-way dialogue with its stakeholders about corporate responsibility and these seven aspects of its activities.

2017 Corporate Responsibility highlights

- MHP secured a €25 million loan from the European Bank of Reconstruction and Development (EBRD) for the construction of a new 12 MW biogas plant at Ladyzhyn in the Vinnytsia region of Ukraine. This plant is expected to reduce the Company's annual greenhouse gas emissions by 85,500 tonnes of CO₂e per annum.
- MHP published and continued to implement the detailed stakeholder engagement plan initiated four-years ago. This includes details of the Company's complaints and grievance procedures, outlines the Company's planned activities, and includes extensive local and central contact information.
- MHP became a member of the Ukrainian Network of Integrity and Compliance (UNIC). UNIC is a network of companies that have pledged to conduct their business responsibly, enhance the reputation of business in Ukraine and counter bribery and corruption risks.
- The Company also supported local business development. In particular, MHP launched an innovation support programme with Radar Tech, an organisation that aims to create an ecosystem to promote

the implementation of ideas, growth and development of sectors within Ukraine's economy.

Policy framework

Key elements of MHP's Corporate Responsibility policy framework include:

- A pledge to: value each employee; provide equality of opportunity; provide a workplace that is free of discrimination; prohibit forced and child labour; and permit freedom of association and collective bargaining.
- The provision of a healthy and safe working environment.
- A commitment to building trusting and mutually profitable partnerships with the Company's local communities. This includes the development of projects and initiatives leading to the improvement of local living standards whilst respecting the human rights and requirements of local stakeholders.
- A commitment to reduce the intensity of greenhouse gas emissions, manage waste effectively and prevent harm to the local environment; minimise the use and discharge of water; preserve local biodiversity; minimise the use of energy; and to use renewable sources where practicable.
- MHP's detailed food quality and safety policy commits it to maintaining the highest standards through its management systems and through regular dialogue with suppliers, contractors, customers and consumers.
- The Company's animal welfare policy commits it to ensure humane treatment of animals in line with applicable laws, regulations and best practice; and to

supply appropriate training to employees to ensure that the policy is adhered to at all times.

- MHP's anti-corruption policy sets out a zero-tolerance approach to corruption and a commitment that all employees will adhere to responsible standards of behaviour.

MHP's Corporate Responsibility website section contains full versions of the Company's policies, which are also available for download at the following link: <https://www.mhp.com.ua/en/responsibility/communication/policies>.

Key aspects of the Corporate Responsibility management systems

People

The Company places significant emphasis on training, personal development and self-motivation. MHP ensures that all employees are trained to a level which ensures that regulatory requirements are complied with and provides all staff with the opportunity for continuous development and skills improvement. The "New Horizons" programme is an example of consistently high-performing employees being presented with the opportunity to select areas of the business to further their careers at the same time as developing their knowledge base and skills.

Occupational health and safety

MHP has deployed a Labour Protection Service. This manages and develops occupational health and safety systems; ensures compliance with the relevant laws and regulations; prevents incidents and accidents; and develops a culture of safety awareness. It is also tasked with developing programmes to improve working conditions; prevent profession-related diseases; and provide the necessary resources and facilities to ensure that these objectives are achieved.

The Labour Protection Service's activities include managing a variety of communications and dialogue mechanisms that are designed to raise and maintain awareness of health and safety matters throughout the Company's businesses. These activities include holding conferences, regular meetings, workshops and exhibitions and the dissemination of news, information and experience-sharing. Internal audits of the Company's health and safety systems are performed regularly.

MHP also supports the development and maintenance of a healthy lifestyle amongst its employees and has opened sports facilities to encourage this. Company sports teams participate in a variety of competitions, both internally and externally.

Local communities

Through the conduct of its local community relationships, the Company aims to play a significant role in providing local employment opportunities and supplementing educational and medical services in its communities. In parallel with a programme of continuous social investment, local management teams are tasked with conducting regular dialogue with their communities. Local management teams are also required to maintain and conduct grievance and complaints procedures in line with the stakeholder engagement plan which was updated in 2017.

MHP prioritises working with local suppliers wherever possible. This helps it support and develop local business, local employment and supply chains.

Environment and climate change

All Company locations employ environmental specialists and people responsible for environmental pro-

tection. In accordance with Ukrainian laws and regulations, the Company's environmental teams always receive the appropriate training and certifications.

The Company's environmental teams' responsibilities include:

- complying with the requirements of environmental legislation;
- minimising the use of energy and resources;
- minimising the effect of the Company's activities on the local environment and maintaining local biodiversity;
- preventing accidents;
- minimising spills, pollution and fugitive emissions;
- minimising water use and discharges to water;
- encouraging the use of recycling and reuse methods; and
- reducing greenhouse gas emissions associated with the Company's activities.

Product quality and safety

Indicators of product quality and safety are complex and depend not only on production processes but also on the raw materials used. Quality and safety control begins at the stage of grain growing, with laboratory control at each production stage. The Company's internal laboratories and external independent laboratories are certified for compliance with ISO/IEC 17025.

Those Company businesses engaged in food production harness up-to-date technologies for the production, processing and packaging of products. Systems of food quality and safety management at these entities have been developed and implemented on the basis of hazard analysis, critical control points and

good manufacturing practice. They are duly certified for compliance with the requirements of key management standards: ISO 9001 Quality Management System; ISO 22000 Food Safety Management System; FSSC 22000 Food Safety System Certification (including requirements of ISO 22000, ISO/ TS 22002 and additional requirements of FSSC); BRC Food Safety – Food Safety International Standard. The viability of management systems implemented by the Company are independently confirmed by audits conducted by international certification body SGS.

MHP prioritises suppliers with ISO 9001 and ISO 22000 certifications. The Company's commitment to regularly invest in the technologies it applies in its activities ensures that its strong track record in this area is maintained.

Animal welfare

MHP adheres to best practice methods of addressing animal welfare during the conduct of its production activities. Management systems ensure that the appropriate industry and legal regulations and guidelines are complied with. Other features of the Company's systems include the maintenance of appropriate living conditions at all times; strict adherence to high standards of biological safety; constant access to balanced food and fresh water; continuous veterinary supervision; and timely treatment and access to ample high-quality bedding materials.

Antibiotics are used selectively and only with the permission of the State Veterinarian, the Company's Chief Veterinary Officer and the Chief Veterinary Officer of the relevant local entity. Antibiotics may be administered after diagnosis has been made and the sensitivity of the causative agent to certain types of antibiotics has been determined through laboratory tests.

The use of antibiotics to prevent diseases at rearing sites is prohibited. The Company does not use hormones or growth stimulants in the production process.

Business conduct

The Company's anti-bribery and corruption systems focus on ensuring high standards of behaviour throughout the business and educating employees about international anti-corruption practices. Learning activities feature external conference attendance and training that focusses on the conduct of business in Ukraine. To support this approach the Security Department is tasked with minimising this type of risk. It holds regularly scheduled meetings with legal experts, security specialists and anti-corruption advisors. This knowledge is applied to develop risk management systems at the Company's businesses and knowledge-sharing through newsletter distribution and other internal communication methods. All suppliers and customers (including distributors and traders) are required to comply with the Company's anti-corruption policy and to adopt methods to combat corruption.

Case studies

Biogas plants

A key aspect of MHP's approach to managing waste, minimising its use of energy through the use of alternative energy sources and reducing its greenhouse gas emissions is its biogas plant programme.

Biogas plants have a significantly positive environmental impact. They enable the efficient utilisation of chicken manure and other agricultural residues for energy production and the application of the best available techniques relating to waste management. They also facilitate a significant reduction in MHP's greenhouse gas emissions.



MHP began construction of its first biogas plant at the Oril-Leader poultry farm in Dnipropetrovsk Oblast in 2012. At the end of 2014, it reached its full energy capacity of 5 MW. This is the largest biogas station in Europe that uses chicken manure and slaughterhouse waste. The total investment was US\$ 15 million.

New planned facility

At the end of 2017, MHP received € 25 million in finance from the EBRD for the construction of a new greenfield 12 MW biogas plant at its Vinnytsia production site.

The techniques employed for the reduction and control of air emissions will include a three-stage desulphurisation process. The biogas complex's water consumption is estimated to be approximately 5.155 m³/day, mainly for sanitary and associated purposes. Efficient water use at the biogas complex will be ensured through the recirculation of 80 per cent of the digestate liquid phase. The remaining 20 per cent will be discharged into a lined lagoon within the biogas complex's site. This will then be used as fertiliser on the agricultural fields MHP cultivates in the area.

The reduction of greenhouse gas emissions will be achieved through better chicken litter management and capturing methane gas through anaerobic digestion to substitute natural gas combustion at the existing slaughterhouse in Ladyzhyn.

MHP expects the new biogas facility to go live in 2018 and has calculated that the project will achieve further greenhouse gas emission reductions of approximately 85,500 tonnes of CO₂e annually.

Stakeholder engagement

In 2014, MHP compiled and published a detailed stakeholder engagement plan. This is part of its commitment to engage in dialogue with local stakeholders; address local concerns about its activities; improve access to and understanding of the Company's complaints and grievance procedures; and enhance understanding and the transparency of its current and future activities.

The document, which is available on the Company's website at <https://www.mhp.com.ua/en/responsibility/communication/stakeholder-engagement-plan>, also contains detailed contact information for the information of its stakeholders. MHP has been engaged in a series of dialogue activities with interested local and national NGOs, local community representatives and other interested parties. It intends to apply this dialogue to develop its existing local relationships and enhance its stakeholder engagement activities in the future.

Alignment with Ukraine's anti-corruption initiative

In October 2017, MHP became a member of the recently formed UNIC. As stated in the 2017 Corporate Responsibility highlights above, this important national initiative is a network of companies that have pledged to conduct their business responsibly, enhance the reputation of business in Ukraine and counter bribery and corruption risks. Membership of UNIC underlines MHP's commitment to responsible business conduct and to robustly addressing corruption and bribery risks.

UNIC aims to unite responsible companies throughout Ukraine and promote the idea of ethical business conduct through educational activities; policy and pro-

gramme development; knowledge sharing; and an annual assessment of the level of compliance of members. The Network currently comprises over 40 Ukrainian and international companies.

Members of UNIC commit themselves to enhancing the level of integrity in their companies and they are required to report annually on the results achieved. Importantly, UNIC is also supported by the EBRD and the Organisation for Economic Co-operation and Development (OECD).

Launch of business innovation support programme

In October 2017, MHP partnered with the Radar Tech Technology Cluster to launch a business innovation support programme. This programme assists the development of Ukrainian business start-ups. The project has a national remit and will be conducted across the country.

The programme has two stages. In the first stage, twenty-five teams will be selected by the lead project partners. Of these, ten teams will progress to the second stage. Here they will be supported by business experts and mentors as well as MHP in conducting trial activities.

MHP decided to participate in this initiative to enable useful, meaningful ideas to be turned into real work projects. The Company also wished to apply its resources to ensure that projects are created in Ukraine and to minimise the drain of talented people leaving to conduct their business innovation in other countries.

The programme commenced in November 2017.



GOVERNANCE

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CORPORATE GOVERNANCE OVERVIEW

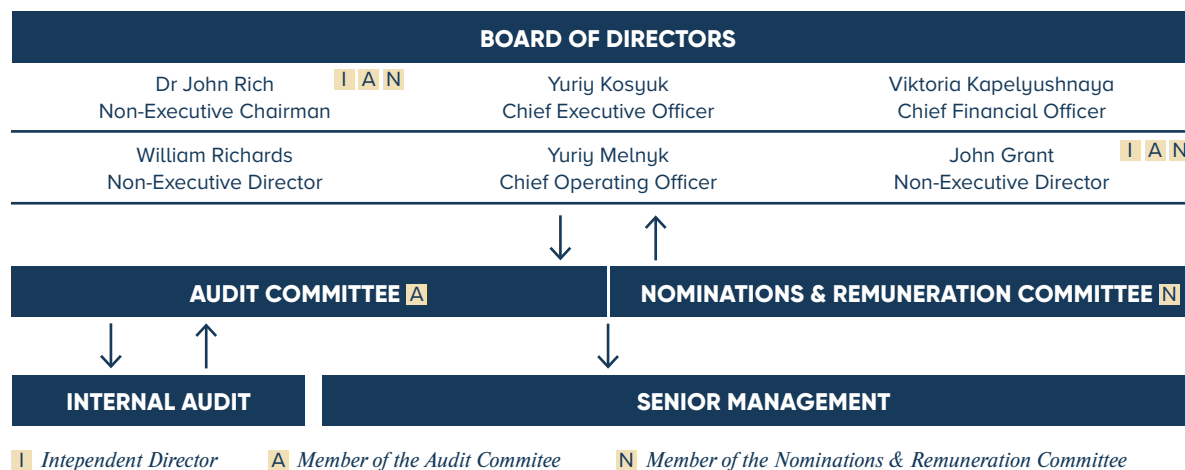
MHP SE, a company registered under the laws of Cyprus, was established on May 30, 2006. According to the extract issued by the Luxembourg Trade and Companies Register on August 08, 2017, the Company converted from a public limited liability company (“société anonyme”) into a European company (“Societas Europaea”) effective as of August 07, 2017.

With effect from 27 December 2017, the Company’s registered office and central administration was transferred to Cyprus and the Company is registered in the Cyprus Registry for SE Companies, under number SE 27.

On and from 27 December 2017, the Company’s registered office address is situated at 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

The Company has adopted a New Memorandum and Articles of Association to comply with the provisions of the Cyprus Companies Law, Cap. 113, Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees, the SE Regulation and the European Public Limited – Liability Company Regulations 2006, as are applicable in Cyprus.

GOVERNANCE STRUCTURE



THE COMPANY UPHOLDS AND PRACTISES THE HIGHEST STANDARDS OF GOVERNANCE AND INTEGRITY IN ITS RELATIONSHIPS WITH ITS SHAREHOLDERS, DIRECTORS, PERSONNEL, BUSINESS COMMUNITY AND OTHER THIRD PARTIES INCLUDING GOVERNMENT AND REGULATORY AGENCIES



Compliance with Governance Codes

In the meantime, the Company has applied the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange as a benchmark for its approach to corporate governance (since the Company was domiciled in Luxembourg until 27 December 2017). Following the transfer of the registered office to Cyprus, the Board and the Company aspired to have a new Company's Corporate Governance Charter (under review and update now) based on the UK Corporate Governance Code. Corporate governance code effective during the FY 2017 could be found via link: <https://www.mhp.com.ua/en/investor-relations/corporate-governance/MHP-S-A-Luxembourg>.

It is the Board's view that the Company has been fully compliant with the Ten Principles of Corporate Governance of Luxembourg Stock Exchange except for the matters noted below.

The Board of Directors has not adopted the provisions of the Cyprus Corporate Governance Code. The Company is not obliged to adopt the provisions of the Code in 2017. The main reason for non-adoption of the Corporate Governance Code is that the Company transferred its seat to Cyprus at the end of the year ended 31 December 2017.

Recommendation 3.5 states that the Company shall draw up a detailed list of criteria for assessing Director independence. The Board reviews Director independence each year according to established principles and, as noted below, considers Dr John Rich and John Grant to be independent Directors, despite their membership of the Board for the last 11 years. The Company intends to draw up a formal and detailed list of criteria in the near future.

Principle 8 addresses Directors' remuneration and includes supporting recommendations relating to the disclosure of Directors' remuneration and the remuneration policy. In common with many listed companies based in Ukraine, the Company has chosen not to disclose executive Director remuneration or specific policy elements and is not legally required to do so.

Principal responsibilities of the Board

The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant Luxembourg laws and regulations (during 2017) and to the relevant Cyprus laws and regulations (since 27 December 2017) and the Articles of association of the Company, see: <https://www.mhp.com.ua/library/file/mhp-se-articles-of-association-apostilled.pdf>.

The Company has a unitary governance structure and the Board is the ultimate decision-making body, except for the powers reserved for the Shareholders' Meeting by law or as specified in the Articles of Association.

The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met. Its responsibilities include the following activities:

- To approve the Company's strategy, as recommended by the CEO, and to oversee the Company's principal objectives;
- To appoint the CEO and approve the appointment by the CEO of the senior officers, including the Chief Financial Officer ("CFO") and to appoint and remove the Company Secretary;

- To appoint and dismiss members of the Board's Committees; to appoint and dismiss the Chairmen of the Board's Committees;
- To assume ultimate responsibility for the oversight of the Company's activities, working with the Audit Committee to ensure that the Management of the Company develops appropriate, adequate and cost-effective internal controls;

To review and assess the main risks to which the Company is exposed in pursuing its corporate purpose, and the strategy implemented to control and manage these risks;

- To review and approve the annual and, if required, six monthly and quarterly Company financial statements, examine the financial position of any subsidiary if needed and present to the annual Shareholders' Meeting a clear and complete evaluation of the Company's financial situation;
- To determine the structure, organisation and operation of the Executive Management team, and specifically its responsibilities, obligations and powers and record them in internal management regulations;
- To define the skills, knowledge and experience required for the Executive Management team to operate effectively;
- To ensure that the members of the Executive Management team have the skills necessary to discharge their responsibilities;
- To establish procedures for assessing and reviewing the operation and performance of the Executive Management team as a whole and each of its members;
- To ensure that the Company's shareholders receive equal treatment, are provided with useful and relevant

information that enables them to exercise their rights and that the rights of majority and minority shareholders are respected equally; and

- To encourage the active participation of shareholders at meetings and take the necessary measures to facilitate that participation taking into account the share ownership structure..

Role of the Chairman

The Board elects the Chairman from amongst members that meet the Board's criteria for an independent Director following the preparation of a job specification by the Nominations and Remuneration Committee. The Company's Corporate Governance Charter excludes the CEO from also becoming Chairman.

The Chairman of the Board is responsible for the proper and efficient functioning of the Board. The Chairman determines the calendar of the Board and Committee meetings and the agenda of the Board's meetings after consultation with the CEO. The Chairman of the Board ensures that the agenda of the Board's meetings includes, when appropriate, the following topics:

- A review of the Company's strategy as proposed by the CEO;
- The establishment of targets and a review of the proposed budget for the forthcoming fiscal year;
- A review of the achievement of targets for all key officers of the Company;
- A review of the efficiency and competence of the Board;
- A review of the marketing plan for the forthcoming fiscal year;
- A review of the capital expenditure plan for the forthcoming fiscal year;

- A review of performance compared against budget for the current year and the prior year; and
- A consideration of any material acquisitions or disposals.

Prior to each meeting, the Chairman ensures that Directors receive complete and accurate information and, to the extent appropriate, a copy of any Management presentation to be made at the Board meeting. The Chairman of the Board will also make sure that there is sufficient time for making decisions.

The Chairman is also responsible for ensuring that new Directors receive a complete and tailored induction to the Company prior to joining the Board and that existing Directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board Committees.

The Chairman of the Board represents the Board to shareholders and the public and chairs Shareholders' Meetings. The Chairman serves as the interface between the Board and major shareholders of the Company on matters of corporate governance.

Relationship between the Chairman and the CEO

A clear division of responsibilities is maintained between the Chairman and the CEO. The CEO may not carry out the duties of the Chairman of the Board and vice versa.

The Chairman is required to establish close relations with the CEO by giving him support and advice while respecting the executive responsibilities of the CEO.

The CEO provides the Chairman of the Board with all the information he requires to carry out his task.

Role of the CEO

The CEO reports directly to the Board of Directors. The CEO is entrusted by the Board with the day-to-day management of the Company within the strategic parameters established by the Board. He oversees the organisation and efficient day-to-day management of subsidiaries, affiliates and joint ventures.

The CEO is responsible for the execution and management of the outcome of all Board decisions. The CEO is delegated powers that are not exclusively reserved to the Board or to the Shareholders' Meeting. The CEO can delegate authority for daily management to subordinate executives but will retain ultimate accountability to the Board of Directors for the actions which are conducted during the performance of the role and the actions of delegates.

The CEO's responsibilities include:

- Proposing a business strategy for the Board to approve;
- Proposing budgets and business plans for the Board to approve;
- Appointing and removing Company executives;
- The design of employee remuneration systems;
- Review and management of the performance of the Company and its staff;
- Conducting all necessary measures to ensure achievement of the Company's goals; and
- Establishing and maintaining the internal decision-making processes of the Company.

Board of Directors

Members of the Board are elected by a majority vote of shareholders at the AGM, may be elected for a six-year period and may be re-elected an unlimited number of times. At 31 December 2017, the Board had six directors, two of whom are regarded by the Board as independent. The Board does not consider Mr Richards to be an Independent Director.

The Board considers the Chairman and John Grant to be independent notwithstanding their period of service (since 2006). For most of 2017, Philippe Lamarche was an Independent Non-Executive Director and after his resignation the Company has been in the process of seeking at least one additional Independent Non-Executive Director to replace Philippe Lamarche and strengthen the Board.

In 2017, the Board conducted an annual effectiveness review in order to evaluate its performance as well as that of its Committees and individual Directors. The evaluation process was initiated by a questionnaire. The conclusions were analysed by the Board to further strengthen its composition and performance.

Changes to the Board of Directors in 2017 and other developments

On 13 October 2017, Philippe Lamarche resigned from the Board of Directors of MHP SE for personal reasons after spending seven years on the Board as a Non-Executive Director. Following his resignation, the Board initiated a search process for a candidate to replace Philippe Lamarche and simultaneously to increase the overall number of Non-Executive Directors on the Board. On 24 October 2017, the shareholders of the Company resolved at the EGM to approve the ap-

pointment of William Richards as a new Non-Executive Director of the Board, with immediate effect and for a period ending with the AGM of the shareholders of the Company to be held in 2019. The search for further suitable Non-Executive Directors continues.

The terms and conditions for Mr Kosyuk's appointment as CEO were agreed and signed on 21 June 2006. The terms are for the duration of his office and do not provide for any benefits on termination of his directorship. Mr Kosyuk may, however, resign from his position as CEO only subject to a prior three-months' notice.

The terms contain confidentiality obligations applicable to Mr Kosyuk for a period of five years after termination of his office. The amount of remuneration and benefits paid by the Company to the persons responsible for the day-to-day management of the Company is reported by the Board of Directors to the AGM.

The amount of remuneration and benefits of all members of the Board of Directors, including the CEO, regardless of whether such remuneration is paid by the Company or by any other entity within the Group, is established by the Nominations and Remuneration Committee. In addition, the amount of remuneration paid to Non-Executive Directors is approved by the AGM.

On 16 August 2017, the Board of Directors unanimously resolved to confirm the mandate of Mr Kosyuk as delegate for the daily management of the Company (*délégué à la gestion journalière*) until the AGM of the Company to be held in 2019 and his attributions given by the Board.

For the results of the 2017 AGM, please see: https://www.mhp.com.ua/library/file/agm-results-of-meeting_2.pdf.

Auditors' remuneration

The auditor's remuneration was approximately US\$ 980 thousand for the year ended 31 December 2017 (2016: US\$ 554 thousand). This remuneration includes both audit and non-audit services, with the audit fees component being approximately US\$ 420 thousand for the year ended 31 December 2017 (2016: US\$ 390 thousand).

The Company has rules and processes in place to ensure the independence of the auditors, including non-audit fee limitations set by the Board and annual investigations by the Audit Committee into whether any services provided are incompatible with the independence of the auditors.

Director independence

The independence of each of the Non-Executive Directors is considered on appointment. Each year, the Board also considers the facts and circumstances relating to Director Independence (and throughout the year as appropriate). This process includes an assessment of whether each Non-Executive Director is independent of Management and any business or other relationships that could materially interfere with their exercise of objective, unfettered and independent judgement or their ability to act in the best interests of the shareholders. In making its decision, the Board considers relationships with Management, major shareholders, associated companies and other parties with whom the Company conducts business.

Following the conduct of these processes, the Board believes that Dr John Rich and John Grant are Independent Board Directors. Up until his resignation in October 2017, Philippe Lamarche was also an Independent Non-Executive Director.

Senior Independent Director

The Board has a Senior Independent Director, John Grant, who was designated as such by the Nominations and Remuneration Committee during the meeting held in November 2011.

The Senior Independent Director is available to shareholders if they have any concerns that they cannot resolve through the normal channels (e.g. Chairman, CEO or other Non-Executive Directors). The Senior Independent Director also provides a sounding board for the Chairman, is responsible for the evaluation of the Chairman and serves as a trusted intermediary for Non-Executive Directors as and when necessary. In 2017, the Senior Independent Director received only one request from a shareholder, and none from any other stakeholders.

Conflicts of interest

The Board has formal procedures in place to manage conflict of interest matters. Each Director is required to inform the Board of any other Directorship, office or responsibility, including executive positions that are taken up outside the Company during the term of office. If, in the opinion of the Board, a conflict of interest exists, the relevant Director does not participate in discussions and will abstain from a Board vote on the affected matter.

The Company's Conflict of Interest Policy covers any transactions involving conflicts of interest (whether actual or potential) of:

1. MHP's Management team members, including Directors of subsidiaries and branches ("key management");

2. MHP's line managers who have authority to authorise transactions on behalf of MHP ("line managers"); and
3. Other MHP employees who are authorised to internally approve any decisions as to significant provisions of transactions based on the internal policies and instructions ("responsible employees") or have power to influence such decisions.

Confidential information

All Board Directors are required to keep information received in their capacity as Directors confidential and may not use it for any other purpose than for fulfilling their remit.

Other professional commitments

Every Director is required to allocate the time and attention required for the proper fulfillment of their duties. This commitment includes limiting the number of other professional commitments to the extent required.

Information and professional development

The Board ensures that Directors, especially Non-Executive Directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. Board Committees are also provided with sufficient resources to undertake their duties.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. The Company's Executive Management team is

obliged to provide such information and Directors to seek clarification or amplification where necessary.

The Chairman ensures that Directors continually update their skills, knowledge and familiarity with the Company in order to fulfil their role both on the Board and on Board Committees. The Company provides the necessary means for developing and updating its Directors' knowledge and capabilities.

Internal control and risk management

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

Once identified, risks are evaluated to establish financial or non-financial impact and the likelihood of their occurrence. For risks assessed as significant, a mitigation action-plan is determined by the operational business management team. The summary of key risks is regularly discussed with MHP's Management team and annually reported to the Board of Directors through the Audit Committee. The Company has an independent risk and process management department whose activities are overseen by the CFO and reported to the Audit Committee.

The Board of Directors, Management and employees follow responsible principles of doing business that are in line with the Company's approved Conflict of Interest Policy. A summary of the Company's framework for managing risks, the Company's key business risks together with the actions taken to mitigate them can be found on page 49 of this Report.

Internal audit

The Company maintains an internal audit function. The Head of Internal Audit has the right of access to the Audit Committee and the Chairman. The Head of Internal Audit reports to the Audit Committee which is responsible for:

- Monitoring and reviewing the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- Approving the appointment and removal of the Head of Internal Audit;
- Approving the remit of the internal audit function;
- Ensuring it has adequate resources and is free from Management or other restrictions;
- Agreeing the internal audit plan;
- Reviewing internal audit reports;
- Monitoring Management responses to internal audit recommendations; and
- Meeting the Head of Internal Audit annually, without Management being present, to discuss the department's remit and any issues arising from the internal audit work carried out.

Financial reporting process

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

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

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

Compensation of key Management personnel

Total compensation of the Group's key Management personnel amounted to US\$ 14,143 thousand for the year ended 31 December 2017 (2016: US\$ 8,421 thousand). Compensation of key Management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's Non-Executive Directors, which consists of contractual salary, amounted to US\$ 460 thousand in 2017 (2016: US\$ 451 thousand).

Key Management personnel totaled 37 and 39 individuals as at 31 December 2017 and 2016 respectively, including 2 and 3 independent directors as at 31 December 2017 and 2016, respectively.

Directors and Officers litigation statement

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

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

a member of the administrative, management or supervisory bodies of a company, or from acting in the management or conduct of the affairs of a company.

Share ownership

Yuriy Kosyuk, the Company's Chief Executive Officer, owns 100% of the shares in WTI Trading Limited ("WTI"), which in turn directly owns a total of 59.8% of the total outstanding share capital of the Company (comprising 41,319,511 shares and 22,552,667 of the Company's global depositary receipts listed on the London Stock Exchange ("GDRs"), representing 38.7% and 21.1%, respectively, of the outstanding share capital of the Company).

Share options

At the date of this Annual Report, neither the Company nor PJSC MHP has a share option plan and no share options have been granted to members of the Board of Directors, members of MHP's senior Management or employees.

Additional disclosures

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

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

COMMITTEES

Nominations and Remuneration Committee

Dr John C Rich, Chairman
John Grant

The Committee's main tasks are:

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

During 2017, the Committee held five meetings, and all of the Committee members attended.

The Nominations and Remuneration Committee Report is provided in a separate section of the Report on page 71.

Audit Committee

John Grant, Chairman
John Rich
Philippe Lamarche¹

The Committee's main tasks are:

- To review and monitor the integrity of the Company's financial statements, announcements of results and any other formal announcement relating to its financial performance, significant financial reporting issues and judgements and to make recommendations to the Board with respect to the financial statements.
- To keep under review and report to the Board on the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, management and reporting of risks.
- To review the Company's policies and procedures for the identification, management and reporting of non-financial risks, to review reports on the risk management process and to report to the Board on the effectiveness of the risk assurance process.
- To monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.
- To approve the appointment, reappointment, compensation and oversight of the Company's external auditors.
- To assist the Board in overseeing compliance with all legal and regulatory requirements.

During 2017, the Committee held four meetings and the average attendance of Committee members was 100%.

The Audit Committee Report is provided in a separate section of the Annual Report on 73.



¹ On 13 October 2017, Mr Philippe Lamarche resigned from the Board of Directors of MHP SE for personal reasons after spending seven years on the Board as a Non-Executive Director

BOARD: COMPOSITION AND PERFORMANCE



DR JOHN C RICH

NON-EXECUTIVE CHAIRMAN OF THE BOARD, CHAIRMAN OF THE NOMINATIONS AND REMUNERATION COMMITTEE, MEMBER OF THE AUDIT COMMITTEE

Dr Rich joined the Board in 2006

Dr Rich is the Managing Director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC) and is a specialist agri-business consultant for the IFC and IFC invested clients. From 1990 to 2003, he was an executive director of Austasia Pty Ltd, an agri-business conglomerate which has operations in Australia, South East Asia and China, and from 1995 to 2002 was a director of AN-OSI Pty Ltd, a company that specialised in supply-chain management for feedlot beef, poultry and dairy operations in Asia and Europe. Dr Rich holds a BSc and a BVSc from the University of Sydney, is a member of the Australian College of Veterinary Scientists and a registered financial member of the Australian College of Veterinary Surgeons.

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



JOHN GRANT

SENIOR INDEPENDENT DIRECTOR, CHAIRMAN OF THE AUDIT COMMITTEE, MEMBER OF THE NOMINATIONS AND REMUNERATION COMMITTEE

Mr Grant joined the Board in 2006

Mr Grant is currently a Non-Executive Director of Augean plc and Chairman of the British Racing Drivers' Club Ltd. He was previously a Non-Executive Director of Melrose Industries plc, National Grid plc, Pace plc and Wolfson Microelectronics plc and Chairman or Non-Executive Director of a number of smaller companies. He was Senior Independent Director at Melrose, Pace and Wolfson and chaired Audit Committees at Melrose, National Grid, Pace and Wolfson. In his executive career, he was Group Finance Director of Lucas Industries plc and Lucas Varsity plc from 1992 to 1996, and previously was Head of Corporate Strategy at Ford Motor Company and Executive Deputy Chairman of Jaguar Cars.

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



WILLIAM RICHARDS
NON-EXECUTIVE DIRECTOR

Mr Richards joined the Board in 2017

Mr Richards has spent the majority of his career in the food industry, both in manufacturing and distribution. He worked initially for Best Foods Ltd in the retail market and then for over 20 years in the foodservice sector, initially as Marketing Director with DBC Foodservice and then with the Kerry Group as Business Director. Currently he is a consultant helping companies develop their foodservice business. Mr Richards holds a BA in Business Studies from Liverpool John Moores University.



YURIY KOSYUK
CHIEF EXECUTIVE
OFFICER

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

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

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



YURIY MELNYK
CHIEF OPERATING OFFICER

*Mr Melnyk joined
the Board in 2011*

Prior to joining MHP Mr Melnyk held the position of Agricultural Minister for Ukraine and Deputy Prime Minister of Ukraine, as well as serving as an advisor to the Prime Minister of Ukraine. Mr Melnyk is a Doctor of Agriculture and has been a correspondent member of the National Academy of Sciences of Ukraine since 2002. In 2004 he was awarded the State Prize of Ukraine in science and technology. He graduated from the Academy of Agriculture of Ukraine as a Zooengineer in 1985. In July 2010 Mr Melnyk was appointed First Deputy CEO of MHP.



**VIKTORIA
KAPELYUSHNAYA**
CHIEF FINANCIAL OFFICER

*Ms Kapelyushnaya joined
the Board in 2006*

Ms Kapelyushnaya, who is also Finance Director at MHP, joined MHP in 1998 and was appointed to the Board in 2006. Previously she was Deputy Chief Accountant and subsequently Chief Accountant of BCFI. She holds diplomas in meat processing engineering (1992) and financial auditing (1998) from the Kiev Institute of the Food Industry.

NOMINATIONS AND REMUNERATION COMMITTEE REPORT

THE NOMINATIONS AND REMUNERATION COMMITTEE (THE “COMMITTEE”) HAS OVERALL RESPONSIBILITY FOR MAKING RECOMMENDATIONS TO THE BOARD ON ALL NEW APPOINTMENTS TO THE BOARD

It also has responsibility for ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence,

diversity and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.



MEMBER

NO OF MEETINGS

John Rich (Chairman)

5/5

John Grant

5/5

Philippe Lamarche
(resigned in October 2017)

4/5

Dr John Rich,
Chairman, Nominations
& Remuneration Committee

The Committee's main tasks are:

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

The Committee is expected to meet not less than twice a year and during 2017, the Committee met five times. The attendance of its members at these Committee meetings is shown on a previous page. The Committee's terms of reference, which were last revised in March 2012, are available to view on the Company's website at <http://www.mhp.com.ua/library/file/nominations-remunerations-committee-15-03-2012.pdf>

Further details regarding the composition, diversity policy and the 2017 activities of the Committee are set out below.

Composition

According to the Articles of Association of MHP SE, the members of the Committee were Independent Non-Executive Directors throughout 2017.

The Committee was chaired by Dr John Rich. John Grant and Philippe Lamarche (resigned from the Board in October 2017) also served on the Committee throughout the year. The Company Secretary acts as secretary to the Committee. On occasion, the Committee invites the Chief Executive, the Chief Financial Officer and the Group HR Director to attend discussions where their input is required.

What the Committee did in 2017

The principal focus of the Committee during 2017 has been to consider the items set out below:

- The Committee considered the composition and balance of the Board and the timing of future Board changes. It also reviewed the succession plans in place in respect of Executive Directors and Non-Executive Directors in conjunction with the provisions of the UK Corporate Governance Code and best practice.
- The Committee considered and approved the continuing education programme for Non-Executive Directors in 2018.
- Taking into account that the appointment of new Board members is critical to the Company, the Committee considered and approved a new Policy

of Appointment for Non-Executive Directors: <https://www.mhp.com.ua/library/file/appointment-of-non-executive-director-policy-final.pdf>. Moreover, following the process, the Committee recommended to the Board the appointment of Mr William Richards. In accordance with the Articles, Mr Richards was formally appointed after the EGM on 24 October 2017.

- Remuneration review of the Board and the senior management team.

The Board recognises the importance of diversity throughout the workforce, be it geographical, cultural or market-aligned, encompassing gender, experience and age. The Board is committed to equality of opportunity for all employees. The Committee currently takes into account a variety of factors before recommending any new appointments to the Board including skills relevant to performing the role, experience and knowledge. The most important priority of the Committee, however, has been and will continue to be ensuring that the best candidate is selected to join the Board and this approach will remain in place going forward.

*Dr John Rich,
Chairman,
Nominations & Remuneration Committee
06 March 2018*

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE (THE “COMMITTEE”) IS RESPONSIBLE FOR THE INTEGRITY OF THE GROUP’S FINANCIAL REPORTING AND ITS INTERNAL CONTROL AND RISK MANAGEMENT PROCESSES

The Committee also makes recommendations to the Board on the appointment of external and internal auditors and oversees their activities.



MEMBER	NO OF MEETINGS
John Grant (Chairman)	4/4
John Rich	4/4
Philippe Lamarche (resigned in October 2017)	3/4

Mr John Grant,
Chairman, Audit Committee

Role and responsibilities

The Committee's role and responsibilities are set out in its terms of reference, which can be viewed on the Company's website. The Committee accepts its responsibility for protecting the interests of shareholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit. The Committee is responsible specifically for:

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

Composition

The Committee comprises a minimum of two Non-Executive Directors, each of whom is deemed by the Board to be independent. The Chairman of the Committee is John Grant, who has recent and relevant financial experience in senior Non-Executive roles (see biography on page 69).

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

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

Meetings in the year

The Committee meets at least four times a year. The scheduling of meetings is intended to align with the financial reporting timetable, enabling the Committee to review the annual and quarterly financial statements, to agree the audit plan in advance of the full year audit, and to maintain oversight of the Group's internal controls and processes. In 2017, the Committee met four times.

The attendance of members at these meetings is shown on the previous page.

Significant issues related to the financial statements

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

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



THE COMMITTEE CONSIDERED THE FOLLOWING SIGNIFICANT ISSUES IN RELATION TO THE FINANCIAL STATEMENTS

Significant issue considered	How the issue was addressed by the Committee
<p>Valuation of property, plant and equipment</p> <p>Except for land and other fixed assets that are carried at historical cost less accumulated depreciation, all other groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses.</p>	<p>The Committee reviewed Management's approach, including the use of an independent external valuation expert, and confirmed with the auditors that they had assessed the competence and independence of the valuer and verified that the methods and assumptions used were appropriate and consistent with accounting standards.</p>
<p>Valuation of biological assets</p> <p>Valuation of biological assets requires the use of complex models to arrive at fair values.</p>	<p>The Committee reviewed the assumptions and judgements applied by management and verified the reasonableness of input data and the accuracy of calculations.</p>
<p>Revenue recognition</p> <p>There is a presumed risk of misstatement of revenue recognition due to fraud.</p>	<p>The Committee confirmed that appropriate procedures had been undertaken to address the risk.</p>
<p>Compliance with bond and bank covenants</p> <p>Continued compliance with covenants included in bond and bank debt agreements is a prime focus for the Committee.</p>	<p>The Committee verified that appropriate stress tests, taking account of potential depreciation of the Ukrainian currency, had been performed and satisfied.</p>
<p>Tax risks</p> <p>In view of the ambiguity of tax legislation, certain transactions may be challenged by the relevant governmental authorities.</p>	<p>The Committee confirmed that tax and legal experts had been engaged to evaluate the Company's tax position and that they had reviewed the adequacy and accuracy of tax contingency disclosures in the financial statements.</p>
<p>Ukraine country risk</p> <p>In view of the continuing crisis in Ukraine, the Committee required assurance that the implications had been fully recognised in considering the Company's status as a going concern.</p>	<p>The Committee ensured that appropriate procedures had been performed to evaluate the Company's exposure to political, economic and legal risks. The Committee confirmed that appropriate safeguards were in place to mitigate these risks, and that all relevant disclosures were made in the financial statements.</p>
<p>Going concern</p> <p>Assessment of the going concern assumptions, taking account of political and economic uncertainties in Ukraine.</p>	<p>The Committee reviewed the assumptions underlying the assessment of the Company's ability to continue as a going concern and, after considering the stress test undertaken by the auditor, supported Management's recommendation that the going concern assumption continued to be appropriate.</p>

External Audit*Auditor rotation*

In accordance with European regulatory requirements and the guidance provided by the Competition and Markets Authority regarding the statutory audit of public-interest entities, the Company was required to conduct a tender process to select the provider of the statutory audit with effect from the 2017 financial year. Deloitte Audit S.a.r.l. (Luxembourg) had been the Company's auditor since 2003. As reported last year, in September 2016 the Company invited proposals from the four largest international audit firms. At the conclusion of a comprehensive selection process, in December 2016 the Committee decided, based on its assessment of which firm had the strongest capabilities, that Deloitte Audit S.a.r.l. should be re-appointed as statutory auditor.

In October 2017, due to the migration of the corporate office from Luxembourg to Cyprus, the Company's shareholders resolved to terminate the mandate of Deloitte S.a.r.l. and to appoint Deloitte Cyprus as the auditor of the Company. It was noted that there had been no conflict with Deloitte S.a.r.l.'s audit report.

Assessment of effectiveness

In view of the external auditor selection process, it was not considered necessary to conduct a separate formal assessment of auditor effectiveness during 2017. The next assessment will be undertaken following completion of the audit of the 2017 accounts. The Committee remains satisfied with the quality, integrity and effectiveness of the work undertaken by the external auditor.

Non-audit services

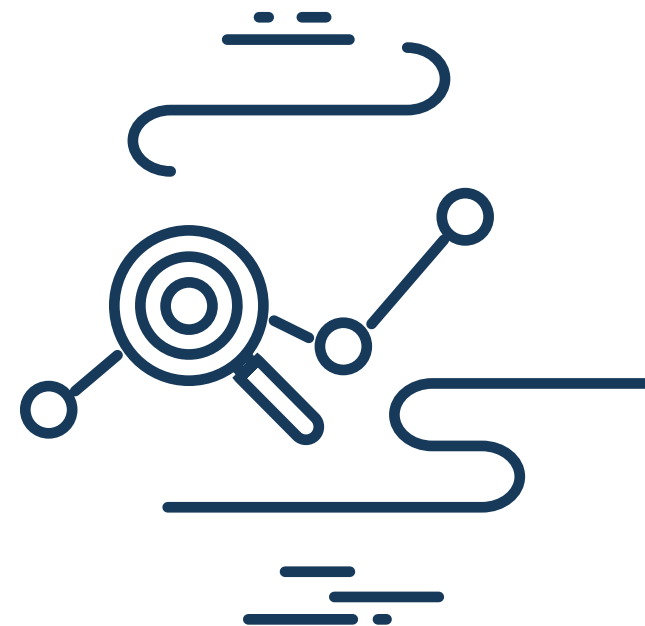
A policy is in place covering engagement of the external auditor for the supply of non-audit services to ensure that the independence and objectivity of the external auditor are not impaired. An analysis of fees earned by the external auditor for audit and non-audit services can be found in Note 8 to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

Under new EU and Competition Commission rules that became effective in June 2016, the cost of non-audit services provided by the external auditor will be limited to 70% of the average audit fee for the previous three years. As no cap applies during the first three years, the first year for which the cap applies will be 2020. Although this is not expected to have a material impact on the Company, the audit tender process provided the opportunity to initiate relationships with other firms that could provide non-audit services in future. It is the Committee's intention to use these relationships to ensure future provision of non-audit services is diversified to ensure both independence of the external audit and best quality and best value provision of non-audit services.

Auditor objectivity and independence

The Committee has a policy and procedures in place to ensure that auditor independence and objectivity are never compromised. These include approval requirements for engagement of the external auditor for non-audit services, periodic review of the cost of non-audit services provided by the external auditor and requirements for rotation of the audit partner every

7 years. Each year, the auditor is required to provide evidence to the Committee of how it believes its independence and objectivity have been maintained. Based on these requirements and procedures, the Committee remains confident that auditor independence and objectivity have been maintained.



Internal Audit

The Company has an Internal Audit function whose primary purpose is to provide independent assurance to Management and the Committee, and hence the Board, on the Company's risk management and control environment. Internal Audit coverage includes all of the Company's operations, resources, services and responsibilities to other bodies, with no department or business unit of the Company being exempt from review.

Internal Audit responsibilities include:

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

The Internal Audit programme is approved annually by the Committee and the Head of Internal Audit reports findings periodically to the Committee. At the end of 2017 the Audit Committee temporarily postponed execution of the program following the resignation of the

Head of Internal Audit. The Committee is actively seeking a new candidate to undertake this role.

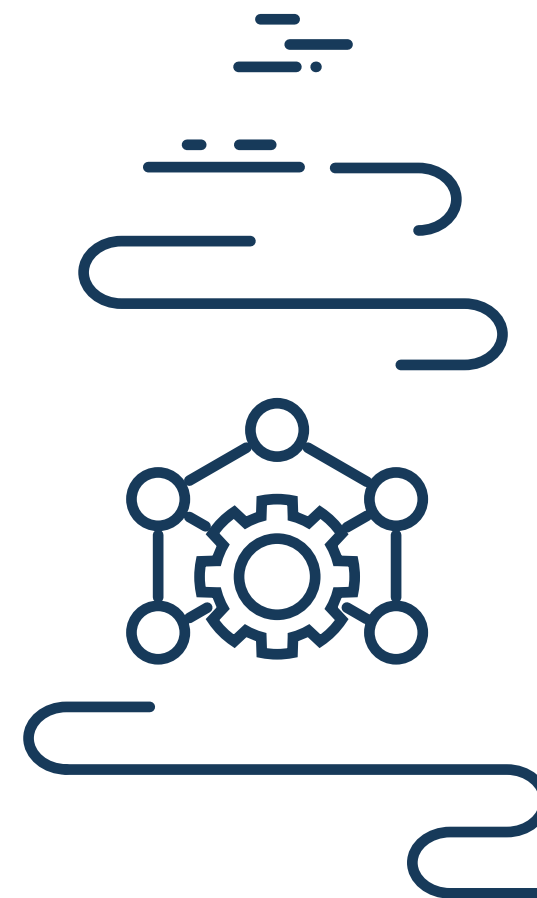
Risk management and internal control

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

The annual review covers key risks that could potentially impact the achievement of MHP's strategic and financial objectives. New risks and changes in existing risks are identified on a continuous basis. A risk scoring system is used to help quantify both the probability and potential impact of each major risk after the effect of mitigating actions, to assess residual risks against the Company's risk appetite, and to prioritise further risk management actions. During the year, further improvements were adopted in the Company's approach to the identification and assessment of risks, and the response to risks, based on best business practices and international (COSO Enterprise Risk Management) standards.

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

*Mr John Grant, Chairman,
Audit Committee
06 March 2018*



MANAGEMENT REPORT

Incorporated information

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

Principal activities and review of the business

MHP is a leading international agro-industrial company and the largest producer of chicken in Ukraine. The business operates a vertically integrated model with the objective of maximising self-sufficiency and controlling costs by consolidating multiple steps in the value chain. The business operates three Segments: Poultry and Related Operations Segment; Grain Growing Segment; and Other Agricultural Segment.

Poultry and Related Operations Segment

The Poultry Segment produces and sells chicken meat (fresh and frozen), vegetable oils (sunflower and soybean) and mixed fodder. It incorporates three chicken and two breeder farms, three sunflower oil plants, a soybean crushing plant and three feed mills.

Grain Growing Segment

The Grain Growing Segment grows crops for fodder production and for sale to third parties. In 2017 MHP had around 370,000 hectares of land incorporating a number of arable farms in Ukraine, harvested 356,080 ha of land yielding 1,999,095 tonnes of crops. Grain storage facilities were 1,585,000 m³ and over 324,336 tonnes capacity in plastic bags.

Other Agricultural Segment

The Other Agricultural Segment produces and sells mainly sausage and cooked meat, convenience foods and produce from cattle and milk operations. It incorporates two facilities for producing prepared meat products and two mixed farms. The meat-processing business is the Segment's flagship, producing 35,899 tonnes of sausage and 13,808 tonnes of convenience foods in 2017.

Future developments

MHP's strategy is:

- To expand poultry production capacity during the period 2018–2022;
- To continue export expansion through sales diversification, the establishment of international sales and distribution offices, market targeting and potentially joint ventures and targeted M&A opportunities;
- To expand the landbank to around 500,000 hectares within the next five years to provide: stability in the supply of ingredients for fodder; and additional hard currency revenues from grain export sales;
- To increase production efficiency through modernisation and innovation, improvement in cost and quality control, use of up-to-date technology, strengthening vertical integration;
- To maintain a continuous improvement approach to the Company's already high biosecurity standards, environmental, health and safety and animal welfare practices;
- To promote and develop its strong brands through consumer-driven innovation and the introduction of new products;

THE 2017 PRODUCTION FIGURES ARE AS FOLLOWS:



3 chicken meat facilities produced
566,242 tonnes of chicken meat



2 breeding farms produced
426,220,271 eggs



3 sunflower oil plants produced
314,115 tonnes of oil



1 soybean crushing plant produced
39,066 tonnes of oil



3 feed mill plants produced
1,525,056 tonnes of fodder

- To increase its presence in value-added food products such as processed meat and convenience food; and
- To expand alternative energy projects (e.g. biogas).

The Executive Management team believes there are ample opportunities for growth both internationally and in Ukraine. In Ukraine, customers choose to buy domestically produced chicken which is more affordable than pork and beef and fresher than imported meat. Exports of chicken meat balance MHP's total sales and provide higher margins compared to local sales.

Board meetings

During 2017, the Board of Directors held seven meetings with a 100 % attendance rate. Directors attended meetings in person and occasionally via conference call. The Board of Directors has also approved their decisions through seven circular resolutions.

The Board conducts regular effectiveness reviews in order to evaluate its performance as well as that of its committees and individual Directors. The evaluation process is normally initiated by a questionnaire and then supplemented by individual interviews by the Chair with each of the Directors. The conclusions are analysed by the Board to further strengthen its composition and performance.

At the end of the year MHP SE's Non-Executive Directors have a regular meeting to discuss and to evaluate the performance of executive directors. The latest meeting took place in London, UK, in December 2017. The results of evaluation are usually communicated to executive directors at the first Board meeting of the following year.

AGM

The next AGM will take place on 25 May 2018 at noon at 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2017 and at the date of this report are presented on page 69. Changes to the Board of Directors in 2017 and other developments could be found in the Corporate governance Overview on the page 62.

Dividend policy

In March 2013 the Board of Directors approved the adoption of a dividend policy which maintains a balance between the need to invest in further development and the right of shareholders to share the net profits of the Company. The new dividend policy confirms the Company's intention to pay annual dividends to shareholders on a regular basis. The Company paid dividends of US\$ 80 million in 2017 (2016: US\$ 80 million).

Research and Development

MHP has always invested in research and development and actively integrates new technologies throughout all operations. Our target is to sustain our position as a world leader in poultry production, cost control and efficient levels at the same time as adopting a sustainably responsible approach to society, the environment and animal welfare.



Business review and risks

A review of the Group's performance and the key risks and uncertainties which have been faced as well as details on likely developments can be found in the Chairman's statement on page 15 and Risk Management on page 49 of this Report.

Corporate Responsibility reporting

The Group initiated Corporate Responsibility reporting in 2015. The latest report is for 2016 and can be found on the Company's website at: <https://www.mhp.com.ua/library/file/gri-2016-final-engl-final.pdf>. The main stakeholders and issues to cover were employees and employment developments, local communities, clients and partners as well as IFIs. The Company issues its Corporate Responsibility Report annually and expects the 2017 Report to be available in June 2018. Summary corporate responsibility information is also included on pages 57 to 60 within this Annual Report.

Branches

MHP SE does not have any branches.

Going concern

After reviewing the 2018 budget and longer-term plans, the Directors are satisfied that, at the time of the approval of the financial statements, it was appropriate to adopt the going concern basis in preparing the financial statements of the Group.

Communication with shareholders

The Directors highlight the importance of effective and clear communication with the shareholders. During 2017 shareholders had a number of meetings and discussions with Board members, predominantly with Mr Yuriy Kosyuk, Dr John Rich, and Ms Viktoriya Kapelyushna, including meetings at conferences and regular conference calls.

In order to facilitate unbiased communication with Independent Directors, the Board has introduced a direct communication channel with Independent Directors (details could be found on <https://www.mhp.com.ua/en/investor-relations/ir-contacts>).

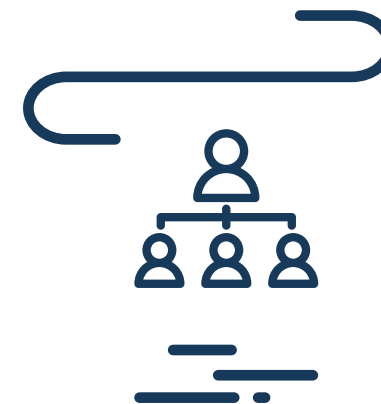
Disclosure of information to auditors

Deloitte Cyprus was appointed as auditor of the consolidated FS after the transfer of seat of the Company from Luxemburg to Cyprus.

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

Subsequent events

There are no significant subsequent events to mention.

**Approval**

Approved by the Board and signed on its behalf by

Company Secretary
Ms Anastasiya Sobotyuk

STAKEHOLDER ENGAGEMENT

NON-EXECUTIVE DIRECTORS

Dr John Rich, Chairman

Mr John Grant, Senior Independent Director

EXECUTIVE DIRECTORS:

Mr Yuriy Kosyuk, CEO

Ms Victoria Kapelyushna, CFO

Ms Anastasiya Sobotyuk, Director of IR

250

meetings

with investment funds
during 2017

Approach to stakeholder engagement

We understand how it is important for the Company's stakeholders (shareholders, bondholders, IFIs, ratings agencies, financial media etc.) to obtain information about its development, results and strategy. To run the communications efficiently and on a regular basis, we follow the following approach. There are several Non-Executive Directors, Senior Executives and the Director of IR who are regularly involved in communications with stakeholders.

Industry conferences, investor meetings and roadshows

During 2017 MHP participated in 12 conferences organised by investment banks from the US, the UK and Ukraine and had over 250 meetings with investment funds. MHP had two roadshow trips with CEO and CFO participation.

Other core IR programme activities

In order to update MHP's stakeholders regularly on operational and financial results, MHP issues press releases and holds regular calls with senior management. In 2017 MHP issued eight press releases dedicated to quarterly, semi-annual and annual updates, and held four conference calls.

Annual General Meeting (AGM) and Extraordinary General Meeting (EGM)

In 2017 the Company had one AGM and two EGMs, principally concerning matters relating to the migration of the Company from Luxembourg to Cyprus, appointment of auditors, appointment of a new Director, and approval of new Articles of Association. All resolutions were duly agreed with shareholders and passed successfully.

Financial Calendar

A new schedule for communications with stakeholders in 2018 is available on the Company's web site: <http://www.mhp.com.ua/en/investor-relations/calendar>.



**INDEPENDENT
AUDITOR'S
REPORT**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MHP SE

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of MHP SE (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 90 to 153 and comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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.

Key Audit Matter	How audit addressed the Key Audit Matter
<p>Valuation of property, plant and equipment</p> <p>As described in Note 3 to the consolidated financial statements, all groups of property, plant and equipment ("PPE") are carried at revalued amounts, except land carried at historical cost and other fixed assets (this category includes mainly office furniture and equipment) carried at historical cost less accumulated depreciation. The carrying value of PPE as of 31 December 2017 that are subject to revaluation is USD 1,264,735 thousand compared to PPE in total of USD 1,383,102 thousand.</p> <p>The Group appointed an independent appraisal firm to carry out the valuation of PPE as of 31 December 2017.</p> <p>The revaluation is significant to our audit due to the magnitude of the carrying value of PPE to the total assets and the level of required judgement applied in the valuation process (see notes 4 and 12 to the consolidated financial statements).</p> <p>The key assumptions used in the preparation of the valuation are the following:</p> <ul style="list-style-type: none"> • present condition of particular assets; • changes in prices of assets and construction materials from the date of their acquisition/construction/date of previous valuation to the date of this valuation; • external prices for production machinery and vehicles; and • other external and internal factors that might have effect on fair value of property, plant and equipment under revaluation. 	<p>We have performed the following audit procedures in order to address the risks of material misstatement associated with this key audit matter:</p> <ul style="list-style-type: none"> • We obtained an understanding of controls surrounding the valuation process for PPE. • We assessed the competence, capabilities, experience and objectivity of the independent appraisal firm, and verified their qualifications. In addition, we discussed the scope of their work with management and reviewed the related terms of engagement to determine that there were no matters that affected their objectivity or imposed scope limitations. • We confirmed that the valuation methods used by the independent appraisal firm are appropriate and comply with International Financial Reporting Standards and industry norms. • With the involvement of our internal valuation specialists, we challenged valuation assumptions with reference to historical data and, where applicable, external benchmarks noting the assumptions used fell within an acceptable range. • We performed a sensitivity analysis on the significant assumptions to evaluate the extent of impact on the fair values and assessed the appropriateness of the Group's disclosures relating to these sensitivities (refer to note 4 to the consolidated financial statements). • We considered the appropriateness of all related disclosures provided in the consolidated financial statements (note 4 and 12 to the consolidated financial statements).

Key Audit Matter	How audit addressed the Key Audit Matter
<p>Valuation of biological assets</p> <p>The Group's policy is to measure biological assets at fair value in accordance with IAS-41 Agriculture ("IAS 41").</p> <p>As of 31 December 2017, the carrying amount of biological assets was USD 161,493 thousand, of which USD 141,028 thousand was classified within current assets and USD 20,465 thousand within non-current assets. Current biological assets mainly comprise breeders held for hatchery egg production, crops in fields and broilers. Non-current biological assets mainly comprise milk cows.</p> <p>For determining the fair value of biological assets, the Group uses the discounted cash flow technique as well as market prices of livestock of similar age, breed and genetic merit.</p> <p>This valuation is significant to our audit because the assessment process is complex and judgmental. It is based on assumptions that are affected by expected market or economic conditions, which can vary over time. The key assumptions used in the preparation of the discounted cash flow technique (see notes 4 and 14 to the consolidated financial statements) are:</p> <ul style="list-style-type: none"> • average meat output for broilers and livestock for meat production; • average productive life of breeders and cattle held for regeneration and milk production; • expected crops output; • estimated changes in future sales prices; • projected production costs and costs to sell; and, • discount rate. 	<p>We have performed the following audit procedures in order to address the risks of material misstatement associated with this key audit matter:</p> <ul style="list-style-type: none"> • We obtained an understanding of the controls surrounding the valuation process for biological assets. • We assessed the competence, capabilities, experience and objectivity of the preparers of valuation, and verified their qualifications. • We confirmed that the valuation methods used are in accordance with IAS 41 and consistent with international valuation standards and industry norms. • We challenged management's assumptions with reference to historical data (yields) and, where applicable, external benchmarks (yields, prices) and market data noting the assumptions used fell within an acceptable range. • We evaluated the reasonableness and appropriateness of the discount rate with the assistance of our internal valuation specialists. • We performed a sensitivity analysis on the significant assumptions to evaluate the extent of impact on the fair values and assessed the appropriateness of the Group's disclosures relating to these sensitivities (note 14 to the consolidated financial statements). • We considered the appropriateness of all related disclosures provided in the consolidated financial statements (note 14 to the consolidated financial statements).

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, including the corporate governance statement, but does not include the consolidated financial statements and our auditor's report thereon. The Board of Directors is also required pursuant to article 151 of the Cyprus Companies Law Cap.113 to prepare a report on non-financial information. This report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the report on non-financial information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus 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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related

to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

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 the key audit matters.

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 the key audit matters.

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group on 24 October 2017 by a shareholders' resolution. This is our first period of engagement appointment.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 5 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.

- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 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.

The engagement partner on the audit resulting in this independent auditor's report is Costas Georghadjis.

Comparative figures

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 March 2017.

Costas Georghadjis
Certified Public Accountant and Registered Auditor
for and on behalf of
Deloitte Limited

Certified Public Accountants and Registered Auditors
Limassol, 6 March 2018



FINANCIAL STATEMENTS

STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the financial position of MHP SE and its subsidiaries (the "Group" or the "Company") as of 31 December 2017 and of the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

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

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions;

- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group as of and for the year ended 31 December 2017 were authorized for issue by the Board of Directors on 06 March 2018.

Board of Directors' responsibility statement

In accordance with Article 9 sections (3c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190 (I) / 2007 until 2013, we, the members of the Board of Directors responsible for the drafting of the consolidated financial statements of MHP SE for the year ended 31 December 2017, on the basis of our knowledge, declare that:

- a) the consolidated financial statements which are presented on pages 10 to 71:
 - (i) have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the provisions of article 9 section (4) of the law, and
 - (ii) provide a true and fair view of the assets and liabilities, the financial position and the profit or loss of the Company's and subsidiary companies, consolidated financial statements as a whole, and
- b) the Management report provides a fair review of the developments and the performance of the business and the financial position of the Group included in the consolidated accounts taken as a whole, together with a description of the main risks and uncertainties which they face.

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**for the year ended 31 December 2017***(in thousands of US dollars unless otherwise indicated)*

Continuing operations	Notes	2017	2016 (Restated Note 3)
Revenue	6	1,287,752	1,135,462
Net change in fair value of biological assets and agricultural produce	5	21,001	38,894
Cost of sales	7	(912,844)	(828,750)
Gross profit		395,909	345,606
Selling, general and administrative expenses	8	(79,239)	(62,273)
VAT refunds and other government grants income	9	52,605	34,056
Other operating expenses, net		(3,912)	(1,125)
Impairment of property, plant and equipment	12	(3,607)	(1,443)
Operating profit		361,756	314,821
Finance income		3,472	2,234
Finance costs	10	(108,399)	(106,843)
Foreign exchange loss, net	31	(35,615)	(145,217)
Other expenses, net		(8,077)	(9,289)
Other expenses, net		(148,619)	(259,115)
Profit before tax		213,137	55,706
Income tax benefit	11	17,118	13,080
Profit for the period from continuing operations		230,255	68,786
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	2	(25,864)	(9,538)
Profit for the period		204,391	59,248

The accompanying notes on the pages 97 to 153 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**for the year ended 31 December 2017***(in thousands of US dollars unless otherwise indicated)*

Other comprehensive income	Notes	2017	2016 (Restated Note 3)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:			
Effect of revaluation of property, plant and equipment	12	209,737	113,317
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income	11	(30,979)	(16,143)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:			
Cumulative translation difference		(25,008)	(51,918)
Other comprehensive income		153,750	45,256
Total comprehensive income for the year		358,141	104,504
Profit attributable to:			
Equity holders of the Parent		202,860	53,452
Non-controlling interests	22	1,531	5,796
		204,391	59,248
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent		354,400	97,302
Non-controlling interests		3,741	7,202
		358,141	104,504
EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS			
Basic and diluted earnings per share (USD per share)		1.90	0.50
EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Basic and diluted earnings per share (USD per share)	33	2.14	0.60

On behalf of the Board:

*Chief Executive Officer**Yuriy Kosyuk**Chief Financial Officer**Viktoria Kapelyushnaya**The accompanying notes on the pages 97 to 153 form an integral part of these consolidated financial statements*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as of 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,383,102	1,180,334
Land lease rights	13	45,410	43,845
Deferred tax assets	11	121	1,561
Non-current biological assets	14	20,405	14,558
Long-term bank deposits		2,524	577
Other non-current assets		24,817	13,554
		1,476,379	1,254,429
CURRENT ASSETS			
Inventories	15	226,368	187,332
Biological assets	14	141,028	116,214
Agricultural produce	16	183,407	167,389
Other current assets, net		25,327	25,424
Taxes recoverable and prepaid	17	37,767	31,235
Trade accounts receivable, net	18	62,305	50,868
Cash and cash equivalents	19	125,554	154,570
Assets classified as held for sale	20	–	88,396
		801,756	821,428
TOTAL ASSETS		2,278,135	2,075,857
EQUITY AND LIABILITIES			
Equity			
Share capital	21	284,505	284,505
Treasury shares		(48,503)	(48,503)
Additional paid-in capital		175,291	175,291
Revaluation reserve	12	661,454	570,649
Retained earnings		925,978	719,340
Translation reserve		(1,030,159)	(1,024,916)

	Notes	31 December 2017	31 December 2016
Equity attributable to equity holders of the Parent			
Non-controlling interests	22	17,141	16,698
Total equity		968,566	676,366
NON-CURRENT LIABILITIES			
Bank borrowings	23	138,817	259,567
Bonds issued	24	970,088	725,361
Finance lease obligations	25	7,410	5,581
Deferred tax liabilities	11	23,730	11,264
		1,140,045	1,001,773
CURRENT LIABILITIES			
Trade accounts payable		43,175	46,508
Other current liabilities	26	50,296	61,766
Bank borrowings	23	36,917	236,807
Accrued interest	23, 24	17,955	22,731
Finance lease obligations	25	4,040	8,044
Liabilities directly associated with assets classified as held for sale	20	–	5,164
		152,383	381,020
TOTAL LIABILITIES		1,292,428	1,382,793
TOTAL EQUITY AND LIABILITIES		2,278,135	2,075,857

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

The accompanying notes on the pages 97 to 153 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the Parent						Total	Non-controlling interests	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve			
Balance at 31 December 2015	284,505	(56,053)	178,192	567,525	645,020	(974,467)	644,722	28,127	672,849
Profit for the year	–	–	–	–	53,452	–	53,452	5,796	59,248
Other comprehensive income/(loss)	–	–	–	94,299	–	(50,449)	43,850	1,406	45,256
Total comprehensive income/(loss) for the year	–	–	–	94,299	53,452	(50,449)	97,302	7,202	104,504
Transfer from revaluation reserve to retained earnings	–	–	–	(44,627)	44,627	–	–	–	–
Dividends declared by the Parent	–	–	–	–	(80,000)	–	(80,000)	–	(80,000)
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(4,289)	(4,289)
Non-controlling interests acquired	–	7,550	(2,901)	–	9,693	–	14,342	(14,342)	–
Translation differences on revaluation reserve	–	–	–	(46,548)	46,548	–	–	–	–
Balance at 31 December 2016	284,505	(48,503)	175,291	570,649	719,340	(1,024,916)	676,366	16,698	693,064
Profit for the year	–	–	–	–	202,860	–	202,860	1,531	204,391
Other comprehensive income/(loss)	–	–	–	174,583	–	(23,043)	151,540	2,210	153,750
Total comprehensive income/(loss) for the year	–	–	–	174,583	202,860	(23,043)	354,400	3,741	358,141
Transfer from revaluation reserve to retained earnings	–	–	–	(44,838)	44,838	–	–	–	–
Dividends declared by the Parent (Note 29)	–	–	–	–	(80,000)	–	(80,000)	–	(80,000)
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(810)	(810)
Derecognition of interests in subsidiaries (Note 2)	–	–	–	(24,841)	24,841	17,800	17,800	(2,488)	15,312
Translation differences on revaluation reserve	–	–	–	(14,099)	14,099	–	–	–	–
Balance at 31 December 2017	284,505	(48,503)	175,291	661,454	925,978	(1,030,159)	968,566	17,141	985,707

On behalf of the Board:

Chief Executive Officer

Yuriy Kosyuk

Chief Financial Officer

Viktoria Kapelyushnaya

The accompanying notes on the pages 97 to 153 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

	Notes	2017	2016
OPERATING ACTIVITIES			
Profit before tax		187,273	46,582
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortization expense	5	93,225	105,865
Net change in fair value of biological assets and agricultural produce	5	(21,001)	(36,067)
Loss on disposal of subsidiaries	2	25,864	–
Change in allowance for irrecoverable amounts and direct write-offs		3,305	(167)
Loss on impairment of property, plant and equipment, net	12	3,607	8,308
Loss on disposal of property, plant and equipment and other non-current assets		182	1,521
Finance income		(3,472)	(2,281)
Finance costs	10	108,399	106,666
Withholding tax related to interest and payment of dividends		619	5,478
Non-operating foreign exchange loss, net		35,615	142,162
Operating cash flows before movements in working capital		433,616	378,067
Working capital adjustments			
Change in inventories		(44,892)	57,327
Change in biological assets		(4,507)	(4,029)
Change in agricultural produce		(29,787)	(36,050)
Change in other current assets, net		(987)	(822)
Change in taxes recoverable and prepaid		(7,188)	32,443
Change in trade accounts receivable, net		(15,557)	(18,415)

	Notes	2017	2016
Change in other current liabilities		(15,495)	37,301
Change in trade accounts payable		(1,163)	9,020
Cash generated by operations		314,040	454,842
Interest received			
Interest received		3,395	2,234
Interest paid			
Interest paid		(102,832)	(105,139)
Withholding tax related to interest paid			
Withholding tax related to interest paid		(603)	(2,073)
Income taxes paid			
Income taxes paid		(423)	(334)
Net cash flows from operating activities		213,577	349,530
INVESTING ACTIVITIES			
Purchases of property, plant and equipment			
Purchases of property, plant and equipment		(101,710)	(91,651)
Purchases of other non-current assets			
Purchases of other non-current assets		(12,249)	(6,021)
Purchase of land lease rights			
Purchase of land lease rights		(7,970)	(7,755)
Net cash inflow on disposal of subsidiaries			
Net cash inflow on disposal of subsidiaries	2	75,558	–
Proceeds from disposals of property, plant and equipment			
Proceeds from disposals of property, plant and equipment		99	1,196
Purchases of non-current biological assets			
Purchases of non-current biological assets		(2,321)	(1,704)
Withdrawals of short-term and long-term deposits			
Withdrawals of short-term and long-term deposits		4,006	418
Investments in short-term deposits			
Investments in short-term deposits		(1,791)	(408)
Loans provided to employees, net			
Loans provided to employees, net		(151)	(55)
Loans repaid by/(provided to) related parties, net			
Loans repaid by/(provided to) related parties, net		19	(1,818)
Net cash flows used in investing activities		(46,510)	(107,798)

The accompanying notes on the pages 97 to 153 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the year ended 31 December 2017*(in thousands of US dollars unless otherwise indicated)*

	Notes	2017	2016
Financing activities			
Proceeds from bank borrowings		70,711	208,396
Repayment of bank borrowings		(403,613)	(240,926)
Proceeds from bonds issued	24	254,800	–
Repayment of bonds		(9,200)	–
Transaction costs related to corporate bonds issued		(15,145)	–
Transaction costs related to bank loans received		(1,993)	–
Repayment of finance lease obligations		(9,217)	(14,651)
Dividends paid to shareholders	29	(80,000)	(80,000)
Dividends paid by subsidiaries to non-controlling shareholders		(810)	(4,289)
Withholding tax related to dividends paid		–	(3,403)
Consent payment related to corporate bonds	24	–	(9,148)
Net cash flows from/(used in) financing activities		(194,467)	(144,021)

	Notes	2017	2016
Net (decrease)/increase in cash and cash equivalents		(27,400)	97,711
Cash and cash equivalents attributable to disposal group classified as held for sale		2,098	(2,098)
Net foreign exchange difference		(126)	(3,974)
Cash and cash equivalents at 1 January		150,982	59,343
Cash and cash equivalents at 31 December	19	125,554	150,982
Non-cash transactions			
Effect of revaluation of property, plant and equipment	12	206,130	105,009
Additions of property, plant and equipment under finance leases		5,518	3,907
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor		7,135	–
Property, plant and equipment purchased for credit		6,698	–

On behalf of the Board:

*Chief Executive Officer**Yuriy Kosyuk**Chief Financial Officer**Viktoria Kapelyushnaya**The accompanying notes on the pages 97 to 153 form an integral part of these consolidated financial statements*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

CORPORATE INFORMATION

MHP SE (the “Parent” or “MHP SE”), a limited liability company (Societas Europaea) registered under the laws of Cyprus, was formed on 30 May 2006. MHP SE serves as the ultimate holding company of PJSC “Myronivsky Hliboproduct” (“MHP”) and its subsidiaries. Hereinafter, MHP SE and its subsidiaries are referred to as the “MHP SE Group” or the “Group”. The registered address of MHP SE is 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus .

MHP has converted from a public limited liability company (“société anonyme”) into a European company (“Societas Europaea”) effective as of 07 August 2017 (the “Conversion”).

The Conversion provided the Company with a legal framework, which is recognised in each of the European Union Member States. This will allow the Company’s shareholders to transfer its registered office freely (subject to the applicable legal provisions) to any other place within the European Union without having to liquidate the Company or create a new legal entity. On 27 December 2017, MHP SE has transferred its registered office from 5, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg, to 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus (“the Transfer”). The controlling shareholder of MHP SE is Mr. Yuriy Kosyuk (“Principal Shareholder”), who owns 100% of the shares of WTI Trading Limited (“WTI”), which is the immediate majority shareholder of MHP SE.

The principal business activities of the Group are poultry and related operations, grain growing, as well as other agricultural operations (meat processing and meat products ready for consumption). The Group’s poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age (“grow-out”), processing and marketing of branded chilled products and include the production and sale of chicken products, vegetable oil, mixed fodder. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, convenience food products, milk, goose meat, foie gras and feed grains. During the year ended 31 December 2017 the Group employed about 27,589 people (2016: 31,000 people).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent's effective ownership interest as of 31 December 2017 and 2016 were as follows:

Name	Country of registration	Year established acquired	Principal activities	31 December 2017	31 December 2016
Raftan Holding Limited	Cyprus	2006	Sub-holding Company	99.9%	99.9%
Larontas Limited	Cyprus	2015	Sub-holding Company	100.0%	100.0%
MHP	Ukraine	1998	Management, marketing and sales	99.9%	99.9%
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv	Ukraine	1998	Fodder and sunflower oil production	88.5%	88.5%
Vinnytska Ptahofabryka	Ukraine	2011	Chicken farm	99.9%	99.9%
Peremoga Nova	Ukraine	1999	Breeder farm	99.9%	99.9%
Druzhba Narodiv Nova1)	Ukraine	2002	Chicken farm	0.0%	100.0%
Oril-Leader	Ukraine	2003	Chicken farm	99.9%	99.9%
Myronivska Ptahofabryka	Ukraine	2004	Chicken farm	99.9%	99.9%
Starynska Ptahofabryka	Ukraine	2003	Breeder farm	100.0%	100.0%
Ptahofabryka Snyatynska Nova	Ukraine	2005	Geese breeder farm	99.9%	99.9%
Zernoproduct	Ukraine	2005	Grain cultivation	99.9%	99.9%
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage, sunflower oil production	99.9%	99.9%
Druzhba Narodiv1)	Ukraine	2006	Cattle breeding, plant cultivation	0.0%	99.9%
NPF Urozhay	Ukraine	2006	Grain cultivation	99.9%	99.9%
Agrofort	Ukraine	2006	Grain cultivation	86.1%	86.1%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	99.9%	99.9%
Ukrainian Bacon	Ukraine	2008	Meat processing	79.9%	79.9%
AgroKryazh	Ukraine	2013	Grain cultivation	99.9%	99.9%
Zernovyi kray	Ukraine	2013	Grain cultivation	51.0%	51.0%
Zakhid-Agro MHP	Ukraine	2015	Grain cultivation	100.0%	100.0%
Scylla Capital Limited	British Virgin Islands	2014	Trading in sunflower oil and poultry meat	100.0%	100.0%

1) In February 2017 the Group sold its 100% ownership interest in the Crimean companies (Note 2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

1. CORPORATE INFORMATION (continued)

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

2. CHANGES IN THE GROUP STRUCTURE

DISPOSAL OF SUBSIDIARIES

Crimean companies

On 17 February 2017 the Group sold its 100% ownership interest in the Group's companies located in Autonomous Republic of Crimea for cash consideration of USD 77,785 thousand. The consideration consisted only of cash, there were no material direct costs related to disposal.

Assets and liabilities of Crimean companies as of the date of disposal were as follows:

	17 February 2017
Property, plant and equipment, net	52,530
Other non-current assets	1,451
Biological assets	9,938
Agricultural produce	9,242
Inventories	11,795
Trade accounts receivable, net	1,917
Taxes recoverable and prepaid	2,913
Other current assets	1,805
Cash and cash equivalents	2,227
Total assets	93,818
Trade accounts payable	(3,685)
Other current liabilities	(1,796)
Total liabilities	(5,481)
Net assets disposed	88,337

The following table presents the net result of the transaction:

Consideration received	77,785
Net assets disposed	(88,337)
Non-controlling interest	2,488
Cumulative exchange loss in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control in subsidiaries ¹⁾	(17,800)
Loss on disposal	(25,864)

¹⁾ Upon disposal of subsidiaries, the total cumulative exchange differences attributable to devaluation of functional currency, which were previously a component of other comprehensive income, were reclassified to profit or loss. Previously recognised gain of revaluation surplus remaining in the revaluation reserve of property, plant and equipment were not reclassified to profit or loss, but transferred directly to retained earnings in the amount of USD 24,841 thousand.

Consideration received in cash and cash equivalents	77,785
Less: cash and cash equivalents balances disposed	(2,227)
Net cash inflow arising on the disposal	75,558

The loss on disposal is included in the loss for the year from discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

2. CHANGES IN THE GROUP STRUCTURE (continued)

Analysis of profit for the year from discontinued operations

Results for the year from discontinued operations

	2016
Revenue	105,574
Other gains	10,357
	115,931
Expenses	(118,190)
Impairment of property, plant and equipment	(6,865)
Loss before tax	(9,124)
Income tax expense	(414)
<i>Loss for the year from discontinued operations attributable to:</i>	
Equity holders of the Parent	(10,383)
Non-controlling interests	845
	(9,538)

Cash flows from discontinued operations

	2016
Net cash inflows from operating activities	1,940
Net cash outflows from investing activities	(3,475)
Net cash inflows from financing activities	–
Net decrease in cash and cash equivalents	(1,535)

Information on financial result of subsidiaries for the period from 1 January 2017 until date of disposal have been considered immaterial for disclosure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law Cap 113. The operating subsidiaries of the Group maintain their accounting records under local accounting standards.

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

Basis of preparation

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

The consolidated financial statements of the Group are prepared on the basis of historical cost except for revalued amounts of buildings and structures, grain storage facilities, production machinery, vehicles and agricultural machinery, biological assets, agricultural produce, and certain financial instruments, which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Adoption of new and revised International Financial Reporting Standards

The following standards were adopted by the Group on 1 January 2017:

- Amendments to IAS 7: Disclosure Initiative;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of bank borrowings (Note 23), bonds issued (Note 24), finance lease obligations (Note 25) and certain other financial liabilities (Note 26). A reconciliation between the opening and closing balances of these items is provided in Note 30. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 30, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Annual Improvements to IFRSs – 2014–2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

Standards and Interpretations in issue but not effective

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

Standards and Interpretations	Effective for annual period beginning on or after
IFRS 9 Financial Instruments ¹⁾	1 January 2018
IFRS 15 Revenue from contracts with customers including amendments to IFRS 15: Effective date of IFRS 15 ¹⁾	1 January 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers ¹⁾	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹⁾	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRSs – Annual Improvements to IFRSs 2014 –2016 Cycle ¹⁾	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IFRS 16 Leases ¹⁾	1 January 2019
Amendments to IFRSs – Annual Improvements to IFRSs 2015 –2017 Cycle	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

1) Standards have been already endorsed for use in the European Union

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and Interpretations in issue but not effective (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- *Classification and measurement of financial assets.* All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by col-

lecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- *Classification and measurement of financial liabilities.* With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in

those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- *Hedge accounting.* The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

All financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and Interpretations in issue but not effective (continued)

Impairment.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as permitted by IFRS 9. As regards the other receivables and loans, the management of the Group expects to recognise lifetime and 12-month expected credit losses for these items. In relation to the cash and cash equivalents, the management of the Company considers that they have low credit risk given their strong external credit rating and hence expect to recognise 12-month expected credit losses for these items.

In general, the management anticipates that the application of the expected credit loss model of IFRS 9 would not have significant impact on the amount of loss allowance recognised for these items.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the con-

sideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on five-step model defined by IFRS 15 The Group performs a detailed review to understand how IFRS 15 applies to MHP business.

Apart from providing more extensive disclosures on the Group's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) Standards and Interpretations in issue but not effective (continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As of 31 December 2017, the Group has non-cancelable operating lease commitments in amount of USD 151,662 thousand. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Manage-

ment are currently assessing its potential impact. It is not practicable to provide a reasonable financial estimate of the effect until the such detailed analysis will be completed.

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

Functional and presentation currency

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

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

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

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate as of the reporting date of that statement of financial position;
- Income and expenses for each consolidated statement of comprehensive income are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognised as a separate component of equity;
- All equity items, except for the revaluation reserve, are translated at the historical exchange rate. The revaluation reserve is translated at the closing rate as of the date of the statement of financial position. For practical reasons, the Group translates items of income and expenses for each period presented in the financial statements using the quarterly average exchange rates, if such translations reasonably approximate the results translated at exchange rates prevailing at the dates of the transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and presentation currency (continued)

The relevant exchange rates were:

Currency	Closing rate as of 31 December 2017	Average for 2017	Closing rate as of 31 December 2016	Average for 2016
UAH/USD	28.0672	26.5947	27.1909	25.5458
UAH/EUR	33.4954	30.0128	28.4226	28.2828
UAH/RUB	0.4870	0.4560	0.4511	0.3832

Basis of consolidation

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

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

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

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

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

Accounting for acquisitions

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

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

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired subsidiary, and the fair value of the Group's previously held equity interest in the acquired subsidiary (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for acquisitions (continued)

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of non-controlling interests in the subsidiary and the fair value of the Group's previously-held interest in the subsidiary (if any), the excess is recognised in the consolidated statement of comprehensive income, as a bargain purchase gain.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent.

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

Accounting for transactions with entities under common control

The assets and liabilities of subsidiaries acquired from entities under common control are recorded in these

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

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

Fair value measurement

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to

generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)****Borrowing costs**

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

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

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

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

Contingent liabilities and assets

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

Segment information

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

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

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

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

tions segment primarily includes sales of other than poultry meat and meat processing products, feed grains and milk.

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

Non-current assets held for sale

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale (continued)

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

Revenue recognition

The Group generates revenue primarily from the sale of agricultural products to the end customers. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably and it is probable that collection will occur and costs incurred or to be incurred in respect of the transaction can be measured reliably. The point of transfer of risk, which may occur at delivery or shipment, varies for contracts with different types of customers. The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

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

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

VAT refunds and other government grants

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

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

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

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

Property, plant and equipment

All groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impair-

ment losses, except land and other fixed assets that are carried at historical cost less accumulated depreciation.

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

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

For all groups of property, plant and equipment carried at revaluation the model revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)****Property, plant and equipment (continued)**

If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve. However, such an increase is recognised in the statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the statement of comprehensive income.

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

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

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

- Buildings and structures 15–55 years
- Grain storage facilities 20–60 years
- Production machinery 10–25 years
- Auxiliary and other machinery 5–25 years
- Utilities and infrastructure 20–50 years
- Vehicles and agricultural machinery 5–15 years
- Other fixed assets 3–10 years

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

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

The residual value, the useful lives and depreciation method are reviewed at each financial year-end. The

effect of any changes from previous estimates is accounted for prospectively as a change in an accounting estimate.

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

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

Intangible assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of goodwill

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

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

Income taxes

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount

of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

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

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

Deferred tax assets and liabilities are offset when:

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

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

Withholding tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Withholding tax (continued)

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise raw materials and,

where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present locations and condition.

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

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

Biological assets and agricultural produce

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

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

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss rec-

ognised in the consolidated statement of comprehensive income. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

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

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

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in the statement of comprehensive income.

Based on the above policy, the principal groups of biological assets and agricultural produce are stated as follows:

Biological Assets

(i) Broiler chickens

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Biological assets and agricultural produce (continued)

(ii) Breeders

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

(iii) Cattle and pigs

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

(iv) Crops in fields

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

(v) Hatchery eggs

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

Agricultural Produce

(i) Dressed poultry, beef and pork

The fair value of dressed poultry, beef and pork is

determined by reference to market prices at the point of harvest.

(ii) Grain

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity. Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, trade accounts receivable, net, bank borrowings, bonds issued,

trade accounts payable and other financial liabilities. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

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

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)****Financial instruments (continued)**

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Trade accounts receivable, net

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

Cash and cash equivalents

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

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

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

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their

risks and characteristics are not closely related to those of the host contracts and the host contracts are not remeasured at fair value through statement of comprehensive income.

As of 31 December 2017 and 2016 there were no material derivative financial instruments that were recognised in these consolidated financial statements.

Trade and other accounts payable

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

Leases

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Provisions

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

Change in accounting policy

Shipping and handling costs charged to customers

During the year ended 31 December 2017 the Group voluntarily changed its accounting policy for classification of shipping and handling costs charged to customers.

The Group sells its products for export on various terms, some of which include shipping and handling costs in the price of the product. Sales price of products for local market predominantly includes shipping and handling costs in the price of the product.

Shipping costs include costs incurred to move the product from the Group's initial point of sale to the buyer's designated location and include payments to third-party shippers. They may also include costs incurred directly by the Group (e.g. salaries and overheads related to the activities to prepare the goods for shipment).

Handling costs include costs incurred to store, move and prepare the products for shipment. Handling costs are incurred from when the product is removed from finished goods to when the product is provided to the shipper and may include an allocation of internal overheads.

Shipping and handling costs had been previously reported as part of costs reported in sales, general and administrative expenses.

In the current period the Group decided to change its accounting policy with classification of shipping and handling costs. The presentation of amounts billed to a customer for shipping and handling depends on an analysis of the principal versus agent considerations related to shipping and handling services. If control of the goods transfers on receipt by the customer, the Group will generally be considered to be the principal in the shipping and handling service. If the Group is considered to be a

principal in shipping and handling, amounts related to shipping and handling billed to a customer in a sale transaction are accounted as revenues earned for the goods provided and costs related to such services are reported in cost of sales.

If control of the goods transfers when the goods are shipped, the Group will be generally considered as agent with respect to the shipping service. If the Group is considered to be an agent in shipping and handling, only the net commission received is reported as revenue.

Costs related to shipping and handling, which are not charged to the customer or otherwise included in the price are reported as selling, general and administrative expenses.

The Group's management believes that this change in the accounting policy will result in the financial statements providing more relevant and reliable information about the "gross profit" measure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting policy (continued)

The effect of the retrospective application of this policy on the consolidated statement of comprehensive income was as follows:

	2017	2016
Cost of sales according to the old policy	(881,038)	(812,250)
Effect of the change in accounting policy	(31,806)	(16,500)
Cost of sales according to the new policy	(912,844)	(828,750)
Selling, general and administrative expenses according to the old policy	(111,045)	(78,773)
Effect of the change in accounting policy	31,806	16,500
Selling, general and administrative expenses according to the new policy	(79,239)	(62,273)

The change in accounting policies had no effect on earnings per share and on consolidated statement of financial position and on the consolidated statement of cash flows either in the current or previous periods.

Reclassifications and revisions

Certain comparative information presented in the consolidated financial statements for the year

ended 31 December 2016 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2017. Such reclassifications and revisions were not significant to the Group financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

amounts recognised in the consolidated financial statements.

Revaluation of property, plant and equipment

As described in Note 3, the Group applies the revaluation model to the measurement of all groups of property, plant and equipment, except land and other fixed assets. At each reporting date, the Group carries out a review of the carrying amount of the items of property, plant and equipment accounted for using a revaluation model to determine whether the carrying amount differs materially from fair value.

When determining whether to perform a fair value assessment in a given period, the management of the Group considers development of macroeconomic indicators like changes in prices, inflation rates and devaluation of Ukrainian Hryvnia ("UAH") against USD and EUR. Based on the results of this review, the management of the Group concluded that buildings and structures, grain storage facilities, utilities and infrastructure, production machinery, vehicles and agricultural machinery, auxiliary and other machinery should be revalued as of 31 December 2017.

During the year ended 31 December 2017, the management of the Group appointed an independent appraiser to perform a revaluation of these groups as of 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued) Revaluation of property, plant and equipment (continued)

The independent appraiser has performed the valuation in accordance with International Valuation Standards applying the following techniques:

- depreciated replacement cost for grain storage facilities, utilities and infrastructure
- market comparable approach for vehicles and agricultural machinery; and
- depreciated replacement cost and market comparable approach, if applicable, for buildings and structures, production machinery, auxiliary and other machinery.

Key assumptions used by the independent appraiser in assessing the fair value of property, plant and equipment using the depreciated replacement cost and market comparable methods were as follows:

- present condition of particular assets;
- changes in prices of assets and construction materials from the date of their acquisition/construction to the date of valuation;
- external prices for production machinery and vehicles; and
- other external and internal factors that might have effect on fair value of property, plant and equipment under revaluation.

The results of revaluation based on the depreciated replacement cost and market comparable approaches were compared with a revaluation performed using the income approach to check for impairment indicators of revalued assets, if any. The Group used discount factor 12.7% in the revaluation performed using the income approach.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Revaluation of property, plant and equipment (continued)

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

Description	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs 2017 (average)	Range of unobservable inputs 2016 (average)	Relationship of unobservable inputs to fair value
Buildings and structures	586,297	N/A ¹⁾	Depreciated replacement cost method	Index of physical depreciation	1–70%	N/A ¹⁾	The higher the index of physical depreciation, the lower the fair value
				Cumulative index of inflation of construction works	1.0–9.55	N/A ¹⁾	The higher the index, the higher the fair value
Production machinery	269,093	N/A ¹⁾	Market comparable approach/ Depreciated replacement cost method	Index of physical depreciation	0–90%	N/A ¹⁾	The higher the index of physical depreciation, the lower the fair value
Utilities and infrastructure	90,111	78,236	Depreciated replacement cost method	Index of physical depreciation	0–70%	0–81%	The higher the index of physical depreciation, the lower the fair value
				Cumulative index of inflation of construction works	1.0–9.55	1.0–6.17	The higher the index, the higher the fair value
Grain storage facilities	76,837	80,850	Depreciated replacement cost method	Index of physical depreciation	1–70%	6–56%	The higher the index of physical depreciation, the lower the fair value
				Cumulative index of inflation of construction works	1.0–8.71	1.0–6.17	The higher the index, the higher the fair value
Vehicles and agricultural machinery	198,903	185,198	Market comparable approach	Index of physical depreciation	0–90%	0–90%	The higher the index of physical depreciation, the lower the fair value
Auxiliary and other machinery	43,494	39,239	Market comparable approach	Index of physical depreciation	0–90%	5–100%	The higher the index of physical depreciation, the lower the fair value

1) Due to the absence of revaluation during the year ended 31 December 2016

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4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued) Revaluation of property, plant and equipment (continued)

If the above unobservable inputs to the valuation model were 5 p. p. higher/lower while all other variables were held constant, the carrying amount of the property, plant and equipment under revaluation would decrease/increase by USD 60,563 thousand and USD 64,470 thousand, respectively.

Key sources of estimation uncertainty

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

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

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

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

During the year ended 31 December 2017 the fair value of biological assets and agricultural produce was estimated using discount factors of 12.7% and 18.1% (31 December 2016: 14.9% and 21.4%) for non-current and current assets, respectively.

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

Useful lives of property, plant and equipment

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

Deferred tax assets

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

5. SEGMENT INFORMATION

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

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

	• sales of chicken meat
Poultry and related operations segment:	• sales of vegetable oil and related products
	• other poultry related sales
Grain growing operations segment:	• sales of grain
Other agricultural operations segment:	• sales of meat processing products and other meat
	• other agricultural operations (milk, feed grains and other)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Sales between segments are carried out at market prices. The segment result represents operating profit under IFRS before unallocated corporate expenses and loss on impairment of property, plant and equipment. Unallocated corporate expenses include management remuneration, representative expenses, and expenses incurred in respect of the maintenance of office premises. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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5. SEGMENT INFORMATION (continued)

The Group does not disclose geographical revenue information as it is not available and the cost to develop it would be excessive.

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

Year ended 31 December 2017	Poultry and related operations	Grain growing operations	Other agricultural operations	Total reportable segments	Eliminations	Consolidated
External sales	1,050,724	117,077	119,951	1,287,752	–	1,287,752
Sales between business segments	37,168	191,993	194	229,355	(229,355)	–
Total revenue	1,087,892	309,070	120,145	1,517,107	(229,355)	1,287,752
Segment results	306,528	65,643	15,496	387,667	–	387,667
Unallocated corporate expenses						(22,304)
Loss on impairment of property, plant and equipment						(3,607)
Other expenses, net ¹⁾						(148,619)
Profit before tax from continuing operations						213,137
Other information:						
Additions to property, plant and equipment ²⁾	93,136	21,069	3,493	117,698	–	117,698
Depreciation and amortization expense ³⁾	59,614	29,675	3,268	92,557	–	92,557
Net change in fair value of biological assets and agricultural produce	28,580	(11,863)	4,284	21,001	–	21,001

1) Include finance income, finance costs, foreign exchange loss, net and other expenses, net.

2) Additions to property, plant and equipment in 2017 (Note 12) do not include unallocated additions in the amount of USD 7,938 thousand.

3) Depreciation and amortization for the year ended 31 December 2017 does not include unallocated depreciation and amortization in the amount of USD 668 thousand.

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5. SEGMENT INFORMATION (continued)

During the year ended 31 December 2017 the Group decided to include convenience food previously reported in poultry and related operations segment to other agricultural operations in line with how Group's chief

operating decision maker ("CODM") started to evaluate performance of the segments. Based on the analysis of convenience food type and nature, the Group believes this disclosure provide more relevant information about

the types of goods supplied by the Group's operating divisions. Comparative information has been restated accordingly.

Year ended 31 December 2016	Poultry and related operations	Grain growing operations	Other agricultural operations	Total reportable segments	Eliminations	Consolidated
External sales	953,542	84,753	97,167	1,135,462	–	1,135,462
Sales between business segments	29,759	195,872	249	225,880	(225,880)	–
Total revenue	983,301	280,625	97,416	1,361,342	(225,880)	1,135,462
Segment results	205,746	116,670	12,482	334,898	–	334,898
Unallocated corporate expenses						(18,634)
Loss on impairment of property, plant and equipment						(1,443)
Other expenses, net ¹⁾						(259,115)
Profit before tax from continuing operations						55,706
Other information:						
Additions to property, plant and equipment ²⁾	74,823	18,955	3,685	97,463	–	97,463
Depreciation and amortization expense ³⁾	60,065	33,336	3,609	97,010	–	97,010
Net change in fair value of biological assets and agricultural produce	5,039	32,198	1,657	38,894	–	38,894

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

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5. SEGMENT INFORMATION (continued)

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2017 and 2016:

	2017	2016
Chicken meat and related products	334,385	243,725
Vegetable oil and related products	259,054	295,596
Grain	108,815	80,990
Other agricultural segment products	30,012	14,409
	732,266	634,720

Export sales of vegetable oil and related products and export sales of grains are primarily made to global trading companies at CPT port terms. The major markets for the Group's export sales of chicken meat are MENA, EU and CIS countries.

6. REVENUE

Revenue for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016 (Restated Note 5)
POULTRY AND RELATED OPERATIONS SEGMENT		
Chicken meat	719,330	590,146
Vegetable oil and related products	260,251	295,596
Other poultry related sales	71,143	67,800
	1,050,724	953,542
GRAIN GROWING OPERATIONS SEGMENT		
Grain	117,077	84,753
	117,077	84,753
Other agricultural operations segment		
Other meat	87,806	71,550
Other agricultural sales	32,145	25,617
	119,951	97,167
	1,287,752	1,135,462

7. COST OF SALES

Cost of sales for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016 (Restated Note 3)
Poultry and related operations	718,407	683,353
Grain growing operations	89,075	62,526
Other agricultural operations	105,362	82,871
	912,844	828,750

For the years ended 31 December 2017 and 2016 cost of sales comprised the following:

	2017	2016 (Restated Note 3)
Costs of raw materials and other inventory used	626,104	558,730
Payroll and related expenses	113,875	95,298
Depreciation and amortization expense	82,835	87,992
Other costs	90,030	86,730
	912,844	828,750

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

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8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Payroll and related expenses	31,759	21,520
Services	17,620	13,380
Depreciation expense	10,390	10,575
Representative costs and business trips	8,920	6,763
Advertising expense	5,256	4,938
Fuel and other materials used	2,588	2,913
Bank services and conversion fees	488	525
Insurance expense	61	169
Other	2,157	1,490
	79,239	62,273

Remuneration to the auditors, included in Services above, approximate to USD 980 thousand for the year ended 31 December 2017 (2016: USD 554 thousand). Such remuneration includes both audit and non-audit services, with the statutory audit fees component approximating USD 420 thousand (2016: USD 390 thousand) for the year ended 31 December 2017 and fees for other assurance services component approximating USD 294 thousand (2016: USD nil), for tax advisory services component approximating USD 130 thousand (2016: USD 61 thousand) and for other non-audit services component approximating USD 136 thousand (2016: USD 103 thousand) for the year ended 31 December 2017.

9. VAT REFUNDS AND OTHER GOVERNMENT GRANTS INCOME

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

VAT refunds and other government grants recognised by the Group as income during the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
VAT refunds	–	34,056
Other government grants	52,605	–
	52,605	34,056

VAT refunds and other government grants for agricultural industry

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

During the year ended 31 December 2015 and before, VAT collected from agricultural producers was fully re-

tained by these companies. On 24 December 2015, the Law “On amending the Tax Code of Ukraine and certain legislative acts of Ukraine in terms of ensuring the balanced budget receipts in 2016” was adopted effective 1 January 2016. In accordance with the new legislation, agricultural producers were entitled to retain only a portion of VAT on agricultural operations. Producers of grain and industrial crops, cattle and dairy producers, poultry and other agriculture producers retained VAT in a portion of 15%, 80% and 50%, respectively.

On 30 December 2016 the President of Ukraine signed the Law No. 1791 On Amendments to the Tax Code of Ukraine Regarding the Balancing of Budget Revenues in 2017 (hereinafter the “Law No. 1791”). The Law No. 1791 introduces changes to VAT administration for agricultural companies which previously enjoyed a special VAT regime. The special VAT regime for agricultural companies was terminated as of 1 January 2017.

However, in order to continue state support for agricultural companies, the Law No. 1791 introduced budget subsidies for agricultural companies by amending the Law of Ukraine On State Support of Agriculture of Ukraine. The agricultural producers eligible for the subsidies include those involved in poultry production and animal farming, as well as fruit and vegetable farmers. For each agricultural producer, the amount of the subsidy is not to exceed the amount of VAT tax paid by the producers, and is distributed on a monthly basis.

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(in thousands of US dollars, unless otherwise indicated)

9. VAT REFUNDS AND OTHER GOVERNMENT GRANTS INCOME (continued)

As of the date of the authorization of these consolidated financial statements the Government has not yet allocated the specific amount for the state subsidies for qualifying agricultural companies in 2018.

10. FINANCE COSTS

Finance costs for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Interest on corporate bonds	83,102	68,184
Transaction costs related to corporate bonds	4,588	–
Interest on bank borrowings	19,430	35,186
Interest on obligations under finance leases	1,211	1,835
Bank commissions and other charges	4,643	6,063
Total finance costs	112,974	111,268
LESS:		
Finance costs included in the cost of qualifying assets	(4,575)	(4,425)
	108,399	106,843

For qualifying assets, the weighted average capitalization rate on funds borrowed during the year ended 31 December 2017 was 9.69% (2016: 9.69%).

Interest on corporate bonds for the years ended 31 December 2017 and 2016 includes amortization of

premium and debt issue costs on bonds issued in the amounts of USD 5,788 thousand and USD 5,978 thousand, respectively.

11. INCOME TAX

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2017 and 2016.

During the year ended 31 December 2017, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax. The Tax Code of Ukraine introduced an 18% income tax rate effective from 1 January 2014. The deferred income tax assets and liabilities as of 31 December 2017 and 2016 are measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. On 1 January 2015, the Law "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform" (the "Law") became effective. Under the Law, the

fixed agricultural tax regime ("FAT") was transformed, without substantial changes to tax rules, by means of introducing a separate (4th) group of single taxpayers – agricultural manufacturers. The tax rates calculated as a percentage of the target-ratio based monetary valuation per hectare of agricultural land resulting in substantially lower tax charges compared to CIT. Agricultural manufacturers are eligible to apply for a single tax if they meet both the following two requirements:

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

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11. INCOME TAX (continued)

The components of income tax expense/(benefit) were as follows for the years ended 31 December 2017 and 2016:

	2017	2016
Current income tax expense	388	621
Deferred tax benefit	(17,506)	(13,701)
Income tax benefit	(17,118)	(13,080)

The reconciliation between profit before tax from continuing operations multiplied by the statutory tax rate and the income tax benefit for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Profit before income tax	213,137	55,706
Income tax expense calculated at rates effective during the year ended in respective jurisdictions	39,171	7,405

Tax effect of:

	2017	2016
Income generated by FAT payers (exempt from income tax)	(57,927)	(40,678)
Non-deductible expenses	(3,984)	12,821
Expenses not deducted for tax purposes	4,785	7,004
Translation loss	837	368
Income tax benefit	(17,118)	(13,080)

During the years ended 31 December 2017 and 2016 the Group did not recognise deferred tax assets arising from temporary differences of USD 26,582 thousand and USD 38,911 thousand, respectively, as the Group did not intend to deduct the relevant expenses for tax purposes in subsequent periods, as there are uncertainties on whether sufficient taxable profits will be generated by particular companies of the Group in the future. There is no expiration date of accounting tax losses according to Tax Code of Ukraine.

Deferred tax liabilities have not been recognised in respect of unremitted earnings of Ukrainian subsidiaries as the earnings can be remitted free from taxation currently and in future years, based on current legislation.

As of 31 December 2017 and 2016 deferred tax assets and liabilities comprised the following:

	2017	2016
DEFERRED TAX ASSETS ARISING FROM:		
Property, plant and equipment	–	6
Other current liabilities	800	761
Inventories	28	326
Tax losses	90,793	81,923
Total deferred tax assets	91,621	83,016
DEFERRED TAX LIABILITIES ARISING FROM:		
Property, plant and equipment	(114,684)	(92,700)
Inventories	(546)	(19)
Prepayments to suppliers	–	–
Total deferred tax liabilities	(115,230)	(92,719)
Net deferred tax liabilities	(23,609)	(9,703)

Certain Group's companies incurred losses during the 2017 and preceding years. The Group has recognised deferred tax assets on accounting tax losses to the extent of possible future taxable income or taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2017 and 2016:

	2017	2016
Deferred tax assets	121	1,561
Deferred tax liabilities	(23,730)	(11,264)
	(23,609)	(9,703)

The movements in net deferred tax liabilities for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Net deferred tax liabilities as of beginning of the year	(9,703)	(7,487)
Deferred tax benefit	17,506	13,701
Deferred tax liabilities arising on acquisition of subsidiaries	–	–
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income	(30,979)	(16,143)
Translation difference	(433)	226
Net deferred tax liabilities as of end of the year	(23,609)	(9,703)

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12. PROPERTY, PLANT AND EQUIPMENT

The following table represents movements in property, plant and equipment for the year ended 31 December 2017:

	Land	Buildings and structures	Grain storage facilities	Production machinery	Auxiliary and other machinery	Utilities and infrastructure	Vehicles and agricultural machinery	Other fixed assets ¹	Construction in progress	Total
<i>Cost or fair value:</i>										
At 1 January 2017	1,217	518,152	85,267	264,939	41,529	80,030	218,741	7,548	59,401	1,276,824
Additions	1,661	13,783	1,066	7,054	2,315	2,446	23,748	1,415	72,148	125,636
Disposals	–	(507)	(41)	(664)	(44)	(4)	(3,846)	(125)	–	(5,231)
Transfers	66	7,828	7,540	9,629	(6,317)	(2,460)	(3,208)	178	(13,256)	–
Revaluations	–	65,164	(13,733)	(1,785)	7,850	12,686	(27,785)	–	–	42,397
Impairment loss recognised	–	(885)	(158)	(775)	(797)	(94)	(898)	–	–	(3,607)
Translation difference	(128)	(17,238)	(3,104)	(9,305)	(1,042)	(2,493)	(7,849)	(319)	(4,942)	(46,420)
At 31 December 2017	2,816	586,297	76,837	269,093	43,494	90,111	198,903	8,697	113,351	1,389,599
<i>Accumulated depreciation:</i>										
At 1 January 2017	–	9,181	4,417	39,774	2,290	1,794	33,543	5,491	–	96,490
Depreciation charge for the year	–	14,265	6,025	23,566	4,370	2,720	37,099	1,273	–	89,318
Elimination upon disposal	–	(58)	(6)	(1,659)	(66)	(2)	(3,037)	(122)	–	(4,950)
Eliminated on revaluation	–	(22,270)	(9,982)	(59,451)	(6,134)	(4,312)	(65,191)	–	–	(167,340)
Transfers	–	–	–	(5)	3	–	2	–	–	–
Translation difference	–	(1,118)	(454)	(2,225)	(463)	(200)	(2,416)	(145)	–	(7,021)
At 31 December 2017	–	–	–	–	–	–	–	6,497	–	6,497
<i>Net book value</i>										
At 1 January 2017	1,217	508,971	80,850	225,165	39,239	78,236	185,198	2,057	59,401	1,180,334
At 31 December 2017	2,816	586,297	76,837	269,093	43,494	90,111	198,903	2,200	113,351	1,383,102

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

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

As of 31 December 2017, included within construction in progress were prepayments for property, plant and equipment in the amount of USD 13,014 thousand (2016: USD 8,661 thousand).

As of 31 December 2017, included within property, plant and equipment were fully depreciated assets with the original cost of USD 5,584 thousand (2016: USD 9,490 thousand).

As of 31 December 2017 and 2016 the net carrying amount of property, plant and equipment, represented by vehicles and agricultural machinery, held under finance lease agreements was USD 21,834 thousand and USD 39,460 thousand, respectively.

Impairment assessment

The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, there were no indicators of impairment as of 31 December 2017 and 2016, except for impairment of certain assets in the amount of USD 3,607 thousand (2016: USD 1,443 thousand).

Revaluation of vehicles and agricultural machinery

During the year ended 31 December 2017 and 2016, the Group engaged independent appraisers to revalue its vehicles and agricultural machinery. The effective dates of revaluation were 31 December 2017 and 31 March 2016 respectively. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery.

Revaluation of production machinery

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its production machinery. The effective date of revaluation was 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature depreciated cost method. During the year ended and as of 31 December 2016, the Group evaluated if the fair value of production machinery was materially different from the reported carrying values. Based on analysis of fluctuations of the cumulative index of producers prices, index of physical depreciation and functional currency depreciation, the Management assessed it not to be materially different from the reported book values.

Revaluation of buildings and structures

During the year ended 31 December 2017, the Group engaged independent appraisers to revalue its buildings and structures. The effective date of revaluation was 31 December 2017. The valuation, which conformed to the International Valuation Standards, was determined using depreciated cost method by reference to observable prices in an active market adjusted based on age and condition of the buildings and structures. During the year ended and as of 31 December 2016, the Group evaluated if the fair value of buildings and structures was materially different from the reported carrying values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and index of physical depreciation, the Management assessed it not to be materially different from the reported carrying values.

Revaluation of Grain storage facilities

During the year ended 31 December 2017 and 2016, the Group engaged independent appraisers to revalue its grain storage facilities as of 31 December 2017 and 31 March 2016, respectively. The valuation, which conformed to the International Valuation Standards, was determined using replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities.

Revaluation of Auxiliary and other machinery

During the year ended 31 December 2017 and 2016, the Group engaged an independent appraiser to determine the fair value of its Auxiliary and other machinery as of 31 December 2017 and 31 March 2016 respectively. The valuation, which conformed to the International Valuation Standards, was determined using the market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature replacement cost method.

Revaluation of Utilities and infrastructure

During the year ended 31 December 2017 and 2016, the Group engaged independent appraisers to revalue its utilities and infrastructure as of 31 December 2017 and 31 March 2016 respectively. The valuation, which conformed to the International Valuation Standards, was determined using depreciated cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Fair value hierarchy	Fair value		Net book value if carried at cost	
		2017	2016	2017	2016
Buildings and structures	Level 3	586,297	508,971	197,780	142,990
Grain storage facilities	Level 3	76,837	80,850	31,013	38,504
Production machinery	Level 2,3	269,093	225,165	124,617	109,178
Vehicles and agricultural machinery	Level 2	198,903	185,198	82,227	39,791
Utilities and infrastructure	Level 3	90,111	78,236	39,364	42,427
Auxiliary and other machinery	Level 2, 3	43,494	39,239	22,740	26,477

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

13. LAND LEASE RIGHTS

Land lease rights represent rights for operating leases of agricultural land plots.

The following table represents the movements in land lease rights for the years ended 31 December 2017 and 2016:

	2017	2016
<i>Cost</i>		
As of 1 January	54,873	53,868
Additions	7,970	7,755
Translation difference	(2,146)	(6,750)
As of 31 December	60,697	54,873
<i>Accumulated amortization:</i>		
As of 1 January	11,028	7,616
Amortization charge for the year	4,859	4,582
Translation difference	(600)	(1,170)
As of 31 December	15,287	11,028
<i>Net book value:</i>		
As of 1 January	43,845	46,252
As of 31 December	45,410	43,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of US dollars, unless otherwise indicated)***14. BIOLOGICAL ASSETS**

The balances of non-current biological assets were as follows as of 31 December 2017 and 2016:

	Thousand	Carrying	Thousand	Carrying
	units	amount	units	amount
	2017		2016	
Milk cows, units	18.3	17,923	18.1	12,532
Boars and sows, units	0.3	117	1.7	232
Other non-current bearer biological assets		470		323
Total bearer non-current biological assets		18,510		13,087
Non-current cattle and pigs, units	3.8	1,895	3.5	1,471
Total consumable non-current biological assets		1,895		1,471
Total non-current biological assets		20,405		14,558

The balances of current biological assets were as follows as of 31 December 2017 and 2016:

	Thousand	Carrying	Thousand	Carrying
	units	amount	units	amount
	2017		2016	
Breeders held for hatchery eggs production, units	3,473	55,716	3,741	46,483
Total bearer current biological assets		55,716		46,483
Broiler chickens, units	40,355	54,207	38,685	40,558
Hatchery eggs, units	35,776	9,016	30,701	6,202
Crops in fields, hectare	88	20,623	93	20,977
Cattle and pigs, units	8	1,250	17	1,845
Other current consumable biological assets		216		149
Total consumable current biological assets		85,312		69,731
Total current biological assets		141,028		116,214

Other current consumable biological assets include geese and other livestock.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

14. BIOLOGICAL ASSETS (continued)

The following table represents movements in major biological assets for the years ended 31 December 2017 and 2016:

	Milk cows, boars, sows	Breeders held for hatchery eggs production	Broiler chickens	Crops in fields
As of 31 December 2015	13,837	52,523	49,234	27,224
Costs incurred	5,611	64,707	459,893	219,285
Gains arising from change in fair value of biological assets less costs to sell	7,454	29,415	162,626	107,259
Transfer to consumable biological assets	–	(85,857)	85,857	–
Transfer to bearing non-current biological assets	5,506	–	–	–
Decrease due to sale	(498)	–	–	–
Decrease due to harvest	(17,485)	(8,134)	(712,668)	(329,794)
Reclassified as held for sale	–	–	1,204	–
Translation difference	(1,661)	(6,171)	(5,588)	(2,997)
As of 31 December 2016	12,764	46,483	40,558	20,977
Costs incurred	7,479	102,702	450,363	239,908
Gains arising from change in fair value of biological assets less costs to sell	13,936	29,651	242,893	67,932
Transfer to consumable biological assets	–	(110,586)	110,586	–
Transfer to bearing non-current biological assets	7,675	–	–	–
Decrease due to sale	(417)	–	–	–
Decrease due to harvest	(22,698)	(10,491)	(788,100)	(307,522)
Translation difference	(699)	(2,043)	(2,093)	(672)
As of 31 December 2017	18,040	55,716	54,207	20,623

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

14. BIOLOGICAL ASSETS (continued)

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

Description	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs 2017 (average)	Range of unobservable inputs 2016 (average)	Relationship of unobservable inputs to fair value
Crops in fields	20,623	20,977	Discounted cash flows	Crops yield – tonnes per hectare	3.3–6.0 (5.0)	3.3–6.2 (5.2)	The higher the crops yield, the higher the fair value
				Crops price – per tonne	USD 118–362 (209)	USD 101–341 (185)	The higher the market price, the higher the fair value
				Discount rate	18.1%	21.4%	The higher the discount rate, the lower the fair value
Breeders held for hatchery eggs production	55,716	46,483	Discounted cash flows	Number of hatchery eggs produced by one breeder	160	165	The higher the number, the higher the fair value
				Hatchery egg price – per egg	USD 0.25	USD 0.20	The higher the market price, the higher the fair value
				Discount rate	12.7%	14.9%	The higher the discount rate, the lower the fair value
Broiler chickens	54,207	40,558	Discounted cash flows	Average weight of one broiler – kg	2.34	2.4	The higher the weight, the higher the fair value
				Poultry meat price – per kg	UAH 8.11–38.44 (29.35)	UAH 6.7–35.6 (23.59)	The higher the market price, the higher the fair value
Milk cows	17,923	12,532	Discounted cash flows	Daily milk yield – litre per cow	16.80–17.55 (17.12)	13.12–20.58 (18.13)	The higher the milk yield, the higher the fair value
				Weight of the cow – kg per cow	521–559 (544)	514–545 (531)	The higher the weight, the higher the fair value
				Milk price – per litre	UAH 7.32–8.11 (7.55)	UAH 5.36–6.17 (5.83)	The higher the market price, the higher the fair value
				Meat price – per kg	UAH 22.27–25.96 (24.41)	UAH 13.55–18.88 (17.10)	The higher the market price, the higher the fair value
				Discount rate	12.7%	14.9%	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the current and non-current biological assets would increase /decrease by USD 42,440 thousand and USD 39,612 thousand, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

15. INVENTORIES

The balances of inventories were as follows as of 31 December 2017 and 2016:

	2017	2016
Components for mixed fodder production	127,812	108,571
Other raw materials	32,645	24,186
Work in progress	28,581	26,073
Sunflower oil	17,970	9,958
Spare parts	10,916	10,201
Mixed fodder	3,521	3,191
Packaging materials	3,041	3,478
Other inventories	1,882	1,674
	226,368	187,332

As of 31 December 2017 and 2016 work in progress in the amount of USD 28,581 thousand and USD 26,073 thousand comprised expenses incurred in cultivating fields to be planted in the years 2018 and 2017, respectively.

As of 31 December 2017, components for mixed fodder production with carrying amount of USD nil thousand (2016: USD 106,101 thousand) were pledged as collateral to secure bank borrowings (Note 23).

16. AGRICULTURAL PRODUCE

The balances of agricultural produce were as follows as of 31 December 2017 and 2016:

	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
	2017		2016	
Chicken meat	37.9	48,103	33.8	36,441
Other meat	N/A ¹⁾	1,618	N/A ¹⁾	2,354
Grain	788	120,537	847	116,316
Other crops	N/A ¹⁾	13,149	N/A ¹⁾	12,278
		183,407		167,389

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

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

As of 31 December 2017, grains with carrying amount of USD nil thousand (2016: USD 4,000 thousand) were pledged as collateral to secure advances received from customers (Note 26).

17. TAXES RECOVERABLE AND PREPAID

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

	2017	2016
VAT recoverable	31,530	26,034
Miscellaneous taxes prepaid	6,237	5,201
	37,767	31,235

18. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable were as follows as of 31 December 2017 and 2016:

	2017	2016
Agricultural operations	66,190	50,737
Sunflower oil sales	249	284
Due from related parties (Note 27)	109	113
Less: allowance for irrecoverable amounts	(4,243)	(266)
	62,305	50,868

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

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18. TRADE ACCOUNTS RECEIVABLE, NET (continued)

The Group also performs specific analysis of trade accounts receivable due from individual customers to determine whether any further adjustments are required to the allowance for irrecoverable amounts assessed on the percentages disclosed above. Based on the results of such a review as of 31 December 2017 the Group determined that trade accounts receivable on sales of poultry meat of USD 2,813 thousand (2016: USD 1,909 thousand) were overdue

but do not require allowance for irrecoverable amounts.

For the years ended 31 December 2017 and 2016 the Group has not recorded any impairment of receivables relating to amounts owed by related parties as management is certain about their recoverability.

The ageing of trade accounts receivable that were impaired as of 31 December 2017 and 2016 was as follows:

	Trade accounts receivable		Allowance for irrecoverable amounts	
	2017	2016	2017	2016
<i>Trade accounts receivable on sales of poultry meat:</i>				
Over 30 but less than 270 days	213	–	(53)	–
Over 270 days	3,966	–	(3,966)	–
	4,179	–	(4,019)	–
<i>Trade accounts receivable on other sales:</i>				
Over 60 but less than 360 days	60	334	(15)	(146)
Over 360 days	209	120	(209)	(120)
	269	454	(224)	(266)
	4,448	454	(4,243)	(266)

19. CASH AND CASH EQUIVALENTS

The balances of cash and cash equivalents were as follows as of 31 December 2017 and 2016:

	2017	2016
Cash on hand and with banks	125,536	150,951
UAH short-term deposits with banks	18	31
EUR short-term deposits with banks	–	3,588
	125,554	154,570

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

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20. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2016 the management of the Group had committed to a plan to dispose of its Crimean companies and anticipated that the disposal was completed on 17 February 2017.

Immediately before the classification of Crimean companies as a disposal group held for sale, the recoverable amount was estimated for certain items of property, plant and equipment and an impairment loss was recognised in the amount of USD 35,151 thousand. The impairment loss in the amount of USD 28,286 thousand is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve. The remaining part of the impairment loss in the amount of USD 6,865 thousands was recognised in profit or loss for the year ended 31 December 2016.

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

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

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

1) Upon disposal of subsidiaries in 2017, net intragroup accounts were offset with associated increase of net assets dispose (Note 2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

21. SHAREHOLDERS' EQUITY

Share capital

As of 31 December 2017 and 2016 the authorized, issued and fully paid share capital of MHP SE comprised the following number of shares:

	2017	2016
Number of shares issued and fully paid	110,770,000	110,770,000
Number of shares outstanding	106,781,794	106,781,794

The authorized share capital as of 31 December 2017 and 2016 was EUR 318,500 thousand represented by 159,250,000 shares with par value of EUR 2 each.

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

22. NON-CONTROLLING INTERESTS

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

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2017	2016	2017	2016	2017	2016
Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv	11.5%	11.5%	(1,221)	(921)	4,178	3,638
Other subsidiaries with immaterial non-controlling interests	n/a	n/a	2,752	6,717	12,963	13,060
	n/a	n/a	1,531	5,796	17,141	16,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

22. NON-CONTROLLING INTERESTS (continued)

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

	Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv	
	2017	2016
Current assets	212,203	312,765
Non-current assets	94,348	104,578
Current liabilities	203,197	299,919
Non-current liabilities	85,315	85,648
Equity attributable to owners of the Group	13,861	28,138
Revenue	424,171	509,114
Expenses	(434,786)	(517,121)
(Loss) for the year	(10,615)	(8,007)
(Loss) attributable to owners of the Group	(9,394)	(7,086)
(Loss) attributable to the non-controlling interests	(1,221)	(921)
(Loss) for the year	(10,615)	(8,007)
Other comprehensive income attributable to owners of the Company	13,555	4,480
Other comprehensive income attributable to the non-controlling interests	1,761	582
Other comprehensive income for the year	15,316	5,062
Total comprehensive income/(loss) attributable to owners of the Company	4,161	(2,606)
Total comprehensive income/(loss) attributable to the non-controlling interests	540	(339)
Total comprehensive income/(loss) for the year	4,701	(2,945)
Net cash (outflow)/inflow from operating activities	(489)	4,723
Net cash outflow from investing activities	(3,622)	(2,420)
Net cash outflow from financing activities	-	-

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23. BANK BORROWINGS

The following table summarizes bank borrowings and credit lines outstanding as of 31 December 2017 and 2016:

Bank	Currency	2017		2016	
		WAIR ¹⁾	USD' 000	WAIR ¹⁾	USD' 000
<i>Non-current</i>					
Foreign banks	USD	7.72%	121,576	8.09%	241,823
Foreign banks	EUR	2.57%	17,241	1.33%	17,744
			138,817		259,567
<i>Current</i>					
Ukrainian banks	UAH	13.00%	9,620	–	–
Ukrainian banks	USD	–	–	7.20%	68,752
Foreign banks	USD	–	–	6.93%	65,500
Current portion of long-term bank borrowings	USD, EUR		27,297		102,555
			36,917		236,807
Total bank borrowings			175,734		496,374

1) WAIR represents the weighted average interest rate on outstanding borrowings.

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

Term loans and credit line facilities were as follows as of 31 December 2017 and 2016:

	2017	2016
Credit lines	9,620	134,252
Term loans	166,114	362,122
	175,734	496,374

As of 31 December 2017 and 2016 all of the Group's bank term loans and credit lines bear floating interest rates.

Bank borrowings and credit lines outstanding as of 31 December 2017 and 2016 were repayable as follows:

	2017	2016
Within one year	36,917	236,944
In the second year	72,950	134,837
In the third to fifth year inclusive	58,719	113,758
After five years	7,148	10,835
	175,734	496,374

As of 31 December 2017, the Group had available undrawn facilities of USD 264,895 thousand (2016: USD 56,479 thousand). These undrawn facilities expire during the period from March 2018 until August 2020.

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

During the years ended 31 December 2017 and 2016 the Group has complied with all covenants imposed by banks providing the loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

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23. BANK BORROWINGS (continued)

The Group's bank borrowings are jointly and severally guaranteed by MHP, Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv, Oril-Leader, Peremoga Nova, Starynska Ptahofabryka, Zernoproduct, Katerynopilsky Elevator, Agrofort, NPF Urozhay, MHP SE, Scylla Capital Limited, Myronivska Ptahofabryka, Ptahofabryka Snyatynska Nova, Vinnytska Ptahofabryka, Zakhid-Agro MHP, Urozhayna Krayina, Raftan Holding Limited, Merique Holding Limited.

As of 31 December 2017, the Group had deposits with banks in the amount of USD 2,524 thousand (2016: USD 4,165 thousand) that were restricted as collateral to secure bank borrowings.

As of 31 December 2016, the Group had borrowings of USD 89,046 thousand that were secured. These borrowings were secured by inventories with a carrying amount of USD 106,101 thousand (Note 15).

As of 31 December 2017 and 2016 accrued interest on bank borrowings was USD 2,578 thousand and USD 7,606 thousand, respectively.

24. BONDS ISSUED

Bonds issued and outstanding as of 31 December 2017 and 2016 were as follows:

As of 31 December 2017 and 2016 accrued interest on bonds issued was USD 15,377 thousand and USD 15,125 thousand, respectively.

	2017	2016
8.25% Senior Notes due in 2020	495,600	750,000
7.75% Senior Notes due in 2024	500,000	–
Unamortized debt issuance cost	(25,512)	(24,639)
Total long-term portion of bonds issued	970,088	725,361

7.75% Senior Notes

On 10 May 2017, MHP SE issued USD 500,000 thousand 7.75% Senior Notes due in 2024 at par value. Out of the total issue amount USD 245,200 thousand were designated for redemption and exchange of existing 8.25% Senior Notes due in 2020.

Early redemption of 8.25% Senior Notes due in 2020 out of issue of 7.75% Senior Notes due in 2024, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange and thus, all the related expenses, including part of consent fees, were capitalized and will be amortized over the maturity period of the 7.75% Senior Notes due in 2024 in the

amount of USD 9,830 thousand. Other related expenses, including part of consent fees, in the amount of USD 4,599 thousand were expensed as incurred.

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

Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to Adjusted EBITDA ratio as defined by the indenture, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed, the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. If a change of control occurs, the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

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24. BONDS ISSUED (continued)

8.25% Senior Notes

On 8 April 2013, MHP SE issued USD 750,000 thousand 8.25% Senior Notes due in 2020 at an issue price of 100% of the principal amount. USD 350,000 thousand out of issued USD 750,000 thousand 8.25% Senior Notes were used to fund the early redemption and exchange of its existing 10.25% Senior Notes due in 2015.

The early redemption of the 10.25% Senior Notes due in 2015 out of the issuance of 8.25% Senior Notes due in 2020, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange. Thus all the related expenses, including part of consent fees, were capitalized and will be amortized over the maturity period of the 8.25% Senior Notes due in 2020 in the amount of USD 28,293 thousand.

Other related expenses, including part of consent fees, in the amount of USD 16,515 thousand were expensed as incurred.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Ptahofabryka Peremoga Nova, Oril-Leader, Myronivsky Zavod po Vygotv-lennyu Krup i Kombikormiv, Zernoproduct, Myronivska Ptahofabryka, Starynska Ptahofabryka, Snyatynska

Ptahofabryka, Katerynopilsky Elevator, Agrofort, NPF Urozhay, Vinnytska Ptahofabryka, Scylla Capital Limited, Raftan Holding Limited, Merique Holding Limited.

Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to Adjusted EBITDA ratio as defined by the indebtedness agreement, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed, the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. If a change of control occurs the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

Consent solicitation

On 7 March 2016, the Group received consent from the Holders of the outstanding USD 750,000 thousand 8.25% Senior Notes for certain proposed amendments to the Indenture and the Notes. Amendments

were obtained before the Consent Expiration Date (7 March 2016). The Amendments were implemented by way of execution of the Supplemental Indenture on 8 March 2016, and became effective from the Consent Settlement Date (9 March 2016).

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

During the reporting periods ended 31 December 2017 and 31 December 2016 the Group has complied with all covenants defined by indebtedness agreement. The weighted average effective interest rate on the Senior Notes is 9.25% per annum and 9.69% per annum for the year ended 31 December 2017 and 2016, respectively.

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25. FINANCE LEASE OBLIGATIONS

Long-term finance lease obligations represent amounts due under agreements for the leasing of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2017, the weighted average interest rates on finance lease obligations were 7.78% and 9.77% for finance lease obligations denominated in EUR and USD, respectively (2016: 6.46% and 8.04%).

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2017 and 2016:

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
Payable within one year	4,979	8,854	4,040	8,044
Payable in the second year	3,780	3,060	3,118	2,648
Payable in the third to fifth year inclusive	4,875	3,411	4,292	2,933
	13,634	15,325	11,450	13,625
Less:				
Future finance charges	(2,184)	(1,700)	–	–
Present value of finance lease obligations	11,450	13,625	11,450	13,625
Less:				
Current portion			(4,040)	(8,044)
Finance lease obligations, long-term portion			7,410	5,581

26. OTHER CURRENT LIABILITIES

Other current liabilities were as follows as of 31 December 2017 and 2016:

	2017	2016
Accrued payroll and related taxes	27,640	24,638
Amounts payable for property, plant and equipment	11,173	5,960
Advances from and other payables due to third parties	6,774	26,382
Other payables	4,709	4,786
	50,296	61,766

As of 31 December 2016, the Group had advances received from customers of USD 10,000 thousand that were secured by agricultural produce with a carrying amount of USD 4,000 thousand (Note 16). There were no advances received from customers that were secured as of 31 December 2017.

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27. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

Transactions with related parties under common control

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

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

to trading activities of the Group do not vary significantly from the terms of similar transactions with third parties. The transactions with the related parties during the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Loans provided to key management personnel	425	760
Purchases from related parties	32	69

The balances owed to and due from related parties were as follows as of 31 December 2017 and 2016:

	2017	2016
Advances and finance aid receivable	3,188	3,310
Loans to key management personnel	956	884
Trade accounts receivable (Note 18)	109	113
Payables due to related parties	17	6

Compensation of key management personnel

Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to USD 14,143 thousand and USD 8,421 thousand for the years ended 31 December 2017 and 2016, respectively. Compensation of key management personnel consists of contractual salary and performance bonuses.

The Group has provided several of its key management personnel with short-term loans at rates comparable to the average commercial rate of interest. The loans to key management personnel are unsecured.

Total compensation of the Group's independent non-executive directors, which consists of contractual salary, amounted to USD 460 thousand and USD 451 thousand in 2017 and 2016, respectively.

Key management personnel totalled 37 and 39 individuals as of 31 December 2017 and 2016, respectively, including 2 and 3 independent non-executive directors as of 31 December 2017 and 2016, respectively.

Other transactions with related parties

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

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28. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Operating Environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016-2017, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions.

In 2017, annual inflation rate amounted to 13.7% (2016: 12.4%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.1% (2016: 1.4%) and stabilization of national currency. From trading perspective, the economy was demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonize its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014–2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatization.

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

The management of the Group believes that the negative impact of the political and economic turmoil at the Group's entities is reasonably limited due to the Group's significant portion of export sales, its access to the international financial markets and the significant distance of its main production sites from any conflict zones.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2017

(in thousands of US dollars, unless otherwise indicated)

28. CONTINGENCIES AND CONTRACTUAL COMMITMENTS (continued)

Taxation and legal issues

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

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

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

The Group exports vegetable oil, chicken meat and related products, and performs intercompany transactions, which may potentially be in the scope of the Ukrainian transfer pricing ("TP") regulations. The Group has submitted the controlled transaction report for the year ended 31 December 2016 within the required deadline, and has prepared all necessary documentation on controlled transactions for the year ended 31 December 2017 as required by legislation and plans to submit report.

As of 31 December 2017, the Group's management assessed its possible exposure to tax risks for a total amount of USD 4,392 thousand related to corporate income tax (31 December 2016: USD 4,210 thousand). No provision was charged of such possible tax exposure.

As of 31 December 2017, companies of the Group were engaged in ongoing litigation with tax authorities for the amount of USD 2,273 thousand (2016: USD 6,069 thousand), including USD 1,534 thousand (2016: USD 2,689 thousand) of litigations with the tax authorities related to disallowance of certain amounts of VAT refunds and deductible expenses claimed by the Group. Of this amount, USD 1,457 thousand as of 31 December 2017 (2016: USD 4,965 thousand) relates to cases where court hearings have taken place and where the court in either the first or second instance has already ruled in favour of the Group. Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and therefore no respective provision is required in the Group's financial statements as of the reporting date.

Contractual commitments on purchase of property, plant and equipment

During the years ended 31 December 2017 and 2016, the companies of the Group entered into a number of contracts with foreign suppliers for the purchase of property, plant and equipment for development of agricultural operations. As of 31 December 2017, purchase commitments amounted to USD 17,412 thousand (2016: USD 2,656 thousand).

Commitments on land operating leases

The Group has the following contractual obligations in respect of land operating leases as of 31 December 2017 and 2016:

	2017	2016
Within one year	20,833	18,207
In the second to the fifth year inclusive	69,896	57,212
After fifth year	60,933	43,257
	151,662	118,676

Ukrainian legislation provides for a ban on sales of agricultural land plots till 1 January 2019. There are significant uncertainties as to the subsequent extension of the ban. The current legislation has resulted in the Group holding land lease rights, rather than the land itself.

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29. DIVIDENDS

On 14 March 2017, the Board of Directors of MHP SE approved the payment of an interim dividend of USD 0.7492 per share, equivalent to approximately USD 80,000 thousand, which were paid to shareholders during the year ended 31 December 2017.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosure” and IFRS 13 “Fair value measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value is estimated to approximate the carrying value for cash and cash equivalents, short-term bank deposits, trade accounts receivables, and trade accounts payable due to the short-term nature of the financial instruments.

Set out on a right side is the comparison by category of carrying amounts and fair values of all the Group’s financial instruments, excluding those discussed above, that are carried in the consolidated statement of financial position.

	Carrying amount		Fair value	
	2017	2016	2017	2016
FINANCIAL LIABILITIES				
Bank borrowings (Note 23)	178,312	503,980	168,627	490,923
Senior Notes due in 2020, 2024 (Note 24)	985,465	740,486	1,085,693	729,000
Finance lease obligations (Note 25)	11,450	13,625	11,691	14,079

The carrying amount of Senior Notes issued and bank borrowings includes interest accrued at each of the respective dates.

The fair value of bank borrowings and finance lease obligations as of 31 December 2017 was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings: 7.7% (2016: 8.3%) and for finance lease obligations of 9.3% (2016: 8.0%), and is within Level 2 of the fair value hierarchy.

The fair value of Senior Notes was estimated based on market quotations and is within Level 1 of the fair value hierarchy.

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30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	01 January 2017	Cash flow from proceeds / (repayments)	Transaction costs payments	Non-cash movements			31 December 2017
				Foreign exchange movements	Purchases through direct bank-lender payments to the vendor and under finance lease and vendor financing agreements	Amortisation and write-off of transaction costs	
Bank borrowings (Note 23)	496,374	(332,902)	(1,993)	6,325	7,135	795	175,734
Senior Notes due in 2020, 2024 (Note 24)	725,361	245,600	(15,145)	4	–	14,268	970,088
Finance lease obligations (Note 25)	13,625	(9,217)	–	1,524	5,518	–	11,450
	1,235,360	(96,519)	(17,138)	7,853	12,653	15,063	1,157,272

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31. RISK MANAGEMENT POLICIES

During the years ended 31 December 2017 and 2016 there were no material changes to the objectives, policies and process for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through maintaining a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through new share issues and through the issue of new debt or the redemption of existing debt.

The Group's target is to achieve a leverage ratio (net debt to adjusted operating profit) of not higher than 3.0. The Group defines its leverage ratio as the proportion of net debt to adjusted operating profit.

Calculation of net debt was aligned with definitions used for the purpose of assessment of compliance with debt covenants provided in respective loan agreements. Thus, the accrued interest which has been included previously as part of the carrying amount of bank borrowings, bonds issued and finance lease obligations has been excluded from the amount of total debt. The comparative information for the year ended 31 December 2016 has been restated accordingly by the way of reducing previously reported amount of net debt in the amount of USD 1,258,091 thousand by the accrued interest in the amount of USD 22,731 thousand.

As of 31 December 2017 and 2016 the leverage ratio was as follows:

	2017	2016
Bank borrowings (Note 23)	175,734	496,374
Bonds issued (Note 24)	970,088	725,361
Finance lease obligations (Note 25)	11,450	13,625
Total Debt	1,157,272	1,235,360
<i>Less:</i>		
Cash and cash equivalents and Short-term bank deposits (Note 19)	(125,554)	(154,570)
Net debt	1,031,718	1,080,790
Operating profit before loss on impairment of property, plant and equipment	365,363	316,264
<i>Adjustments for:</i>		
Depreciation and amortization expense (Notes 7, 8)	93,225	98,567
Adjusted operating profit	458,588	414,831
Net debt to adjusted operating profit	2.25	2.61

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31. RISK MANAGEMENT POLICIES (continued)

Capital risk management (continued)

Debt is defined as bank borrowings, bonds issued and finance lease obligations. Net debt is defined as debt less cash and cash equivalents and short-term bank deposits. Adjusted operating profit is defined as operating profit adjusted for the depreciation and amortization expense and losses and gains believed by the management to be non-recurring in nature, as this measure produces results substantially comparable to those reviewed for the purposes of financial covenants under the Group's borrowings.

Major categories of financial instruments

	2017	2016
FINANCIAL ASSETS:		
Long-term bank deposits	2,524	577
Loans to employees and related parties	1,422	1,222
Other receivables	11,429	14,082
Trade accounts receivable, net (Note 18)	62,305	50,868
Cash and cash equivalents (Note 19)	125,554	154,570
	203,234	221,319
FINANCIAL LIABILITIES:		
Bank borrowings (Note 23)	175,734	496,374
Bonds issued (Note 24)	970,088	725,361
Finance lease obligations (Note 25)	11,450	13,625
Amounts payable for property, plant and equipment (Note 26)	11,173	5,960
Accrued interest (Note 23,24)	17,955	22,731
Trade accounts payable	43,175	46,508
Accrued payroll	25,456	22,976
Other payables (Note 26)	4,709	4,786
	1,259,740	1,338,321

The main risks inherent to the Group's operations are those related to credit risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk, and commodity price and procurement risk.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer or group of customers. The approved credit period for major groups of customers, which include franchisees, distributors and supermarkets, is set at 5-21 days.

Limits on the level of credit risk by customer are approved and monitored on a regular basis by the management of the Group. The Group's management assesses amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. As of 31 December 2017 about 26% (2016: 28%) of trade accounts receivable comprise amounts due from 12 large supermarket chains, which have the longest contractual receivable settlement period among customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

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31. RISK MANAGEMENT POLICIES (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2017 and 2016. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

Major categories of financial instruments

	Carrying amount	Contractual Amounts	Less than 1 year	From 2nd to 5th year	After 5th year
<i>Year ended</i>					
<i>31 December 2017</i>					
Bank borrowings	178,312	196,021	45,779	142,408	7,834
Bonds issued	985,465	1,349,693	79,637	711,931	558,125
Finance lease obligations	11,450	13,634	4,979	8,655	–
Total	1,175,227	1,559,348	130,395	862,994	565,959
<i>Year ended</i>					
<i>31 December 2016</i>					
Bank borrowings	503,980	547,622	261,040	274,611	11,971
Bonds issued	740,486	966,563	61,875	904,688	–
Finance lease obligations	13,625	15,325	8,854	6,471	–
Total	1,258,091	1,529,510	331,769	1,185,770	11,971

All other financial liabilities (excluding those disclosed above) are repayable within one year.

The Group's target is to maintain its current ratio, defined as the proportion of current assets to current liabilities, at the level of not less than 1.2. As of 31 December 2017 and 2016, the current ratio was as follows:

	2017	2016
Current assets	801,756	821,428
Current liabilities	152,383	381,020
	5.26	2.16

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, but the management of the Group sets limits on the level of exposure to foreign currency fluctuations in order to manage currency risk.

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31. RISK MANAGEMENT POLICIES (continued)

Currency risk (continued)

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

	2017		2016	
	USD	EUR	USD	EUR
ASSETS				
Long-term bank deposits	–	2,524	–	577
Other non-current assets, net	11,617	–	5,039	–
Trade accounts receivable, net	22,266	2,311	20,315	117
Other current assets, net	110	–	8,408	–
Cash and cash equivalents	99,204	5,669	107,539	10,240
	133,197	10,504	141,301	10,934
LIABILITIES				
<i>Current liabilities</i>				
Trade accounts payable	2,776	3,083	2,365	4,544
Other current liabilities	24	5,929	368	3,380
Accrued interest	17,846	109	22,570	161
Short-term bank borrowings	12,121	15,176	212,289	24,518
Short-term finance lease obligations	3,142	887	5,138	2,906
	35,909	25,184	242,730	35,509
<i>Non-current liabilities</i>				
Long-term bank borrowings	121,576	17,241	241,685	17,882
Bonds issued	970,088	–	725,361	–
Long-term finance lease obligations	5,362	1,986	4,730	853
	1,097,026	19,227	971,776	18,735
	1,132,935	44,411	1,214,506	54,244

The table below illustrates the Group's sensitivity to a change in the exchange rate of the Ukrainian Hryvnia against the US Dollar and EUR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for possible change in foreign currency rates.

	Change in foreign currency exchange rates	Effect on profit before tax, gain/ (loss)
2017		
Increase in USD exchange rate	10%	(99,974)
Increase in EUR exchange rate	10%	(3,391)
Decrease in USD exchange rate	5%	49,987
Decrease in EUR exchange rate	5%	1,695
2016		
Increase in USD exchange rate	10%	(107,321)
Increase in EUR exchange rate	10%	(4,331)
Decrease in USD exchange rate	5%	53,660
Decrease in EUR exchange rate	5%	2,166

During the year ended 31 December 2017 the Ukrainian Hryvnia depreciated against the EUR and USD by 15.14% and 3.12%, respectively (2016: depreciated against the EUR by 7.74% and 11.73% against the USD). As a result, during the year ended 31 December 2017 the Group recognised net foreign exchange losses in the amount of USD 35,615 thousand (2016: foreign exchange losses in the amount of USD 145,217 thousand) in the consolidated statement of comprehensive income.

In April 2017, the National Bank of Ukraine ("NBU") decreased a requirement to sell foreign currency proceeds from any export sales at Ukrainian interbank currency market to 50%. During the year ended 31 December 2017 USD 336 thousand (2016: USD 235 thousand) net foreign exchange gain resulting from the difference in NBU and Ukrainian interbank currency market exchange rates, was included in Other

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31. RISK MANAGEMENT POLICIES (continued)

Currency risk (continued)

operating income.

The currency risk is mitigated by the existence of USD-denominated proceeds from sales of sunflower oil, grain and chicken meat, which are sufficient for servicing the Group's foreign currency denominated liabilities and were as follows during the years, ended 31 December 2017 and 2016:

	2017	2016
Chicken meat and related products	334,385	243,725
Vegetable oil and related products	259,054	295,596
Grain	108,815	80,990
Other agricultural segment products	30,012	14,409
	732,266	634,720

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). For variable rate borrowings, interest is linked to LIBOR or EURIBOR.

The below table illustrates the Group's sensitivity to increases or decreases of interest rates by 5% (2016: 5%). The analysis was applied to interest bearing liabilities (bank borrowings, finance lease obligations and accounts payable under grain purchase financing arrangements) based on the assumption that the amount of liability outstanding as of the reporting date was outstanding for the whole year.

	Increase/ (decrease) of floating rate	Effect on profit before tax, gain/ (loss)
		USD ' 000
2017		
LIBOR	5%	(7,110)
LIBOR	-5%	7,110
EURIBOR	5%	(1,765)
EURIBOR	-5%	1,765
2016		
LIBOR	5%	(23,192)
LIBOR	-5%	23,192
EURIBOR	5%	(2,308)
EURIBOR	-5%	2,308

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

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31. RISK MANAGEMENT POLICIES (continued)

Livestock diseases risk

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

Commodity price and procurement risk

Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To mitigate this risk the Group continues expansion of its grain growing segment, as part of vertical integration strategy, and also accumulates sufficient commodity stock to meet its production needs.

32. PENSIONS AND RETIREMENT PLANS

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 31 December 2017 was USD 23,680 thousand and is recorded in the consolidated statement of comprehensive income on an accrual basis (2016: USD 18,652 thousand). The Group companies are not liable for any other supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

33. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in calculation of earnings per share are as follows:

	2017	2016
Profit for the year attributable to equity holders of the Parent	228,724	63,835
Earnings used in calculation of earnings per share	228,724	63,835
Weighted average number of shares outstanding	106,781,794	106,256,207
Basic and diluted earnings per share (USD per share)	2.14	0.60

The Group has neither potentially dilutive ordinary shares nor other dilutive instruments; therefore, the diluted earnings per share equal basic earnings per share.

34. SUBSEQUENT EVENTS

There are no material subsequent events to mention.

35. AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Directors of MHP SE on 06 March 2018.

SHAREHOLDER INFORMATION

Financial Calendar

MHP's financial calendar can be found here:

<http://www.mhp.com.ua/en/investor-relations/calendar>.

The calendar is updated to show relevant events and dates.

Key Contacts & Advisors

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Director of Investor Relations and Company Secretary

Anastasiya Sobotyuk

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Website

Shareholders are encouraged to visit our website, www.mhp.com.ua, to obtain information on the Company including its history, news and press information.

Auditor

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Registrar

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GLOSSARY OF TERMS

AGM	Annual general meeting	IFI	International financial institution
Broiler	A young chicken raised for meat	IFRS	International Financial Reporting Standards
CAPEX	Capital expenditure	IR	Investor relations
CEO	Chief Executive Officer	JV	Joint venture
CFO	Chief Financial Officer	Kg	Kilograms
CIS	Commonwealth of Independent States	KPIs	Key performance indicators
Company	MHP SE and its subsidiaries	LTM	Last twelve months
COSO	Committee of Sponsoring Organisations	M&A	Mergers and acquisitions
CO₂	Carbon dioxide	MENA	Middle East and North Africa region
CSR	Corporate Social Responsibility	MW	Megawatt
EBITDA	Earnings before interest, tax, depreciation and amortisation	NED	Non-executive director
EBRD	European Bank for Reconstruction and Development	NGO	Non-governmental organisation
EGM	Extraordinary general meeting	OECD	Organisation for Economic Co-operation and Development
EU	European Union	R&D	Research and development
Fodder	Food for livestock	SKU	Stock keeping unit, or distinct type of item for sale
GCC	Gulf Cooperation Council	SPOT	A contract for immediate settlement on the spot date
GDR	Global depositary receipt	UAE	United Arab Emirates
Greenfield	Relating to previously undeveloped sites	UAH	Ukrainian Hryvnia
GRI	Global Reporting Initiative	UK	United Kingdom
Group	MHP SE and its subsidiaries	UNIC	Ukrainian Network of Integrity and Compliance
Grow-out	The period during which the broilers are raised	US	United States
Ha	Hectares	US\$ /USD	United States Dollar
HR	Human resources	y/y	Year-on-year
IAS	International Accounting Standards	VAT	Value-added tax
IFC	International Finance Corporation		