



Report of the Board of Directors on operations in the first half of 2020

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Overview of Operations in H1 2020 and Outlook for the Year 2020

Strategy and Operations

The macroeconomic environment in the key markets of Milkiland in Ukraine and Russia in the reporting period were affected by the global COVID-19 outbreak. Quarantine measures imposed both by the Ukrainian and Russian Governments restrained the economic activity and, all in all, influenced on the customer's demand in these countries. Meanwhile, the degree of this influence was different.

In particular, Russian economy continued a "stagnation journey", which it followed in previous years. The GDP of Russian Federation in Q1 2020 demonstrated a minor growth of +0.4% on y-o-y basis. The dynamics of this index for sure came to the negative territory in Q2 2020 in comparison with Q2 2019 (the exact figure was not published yet on the date of this Report). This led to the decline of the real disposal income of Russians by 2.7% on y-o-y basis and triggered the decrease of the retail trade turnover by 6.4% in H1 2020 in comparison with the same period of 2019.

Ukrainian real GDP dropped by 11.4% in Q2 2020 in comparison with Q2 2019 according to the preliminary estimates of the State statistics service of Ukraine. At the same time, real wages in the country in H1 2020 grew by 4.8% y-o-y, which supported the growth of the retail trade turnover by 3% on y-o-y basis.

Both, Ukraine and Russia spent the first half of 2020 in relatively low-inflation environment with the CPI's stood at 2.0% and 2.8%, respectively.

In H1 2020 the national currencies of Russia and Ukraine followed the different ways. While Russian rouble devalued against EUR during this period on average by 6% on y-o-y basis, Ukrainian hryvnya revalued against European currency on average at the same c. 6%.

More active customer demand, including for dairy, in Ukraine in H1 2020 was fueled by the growth of the real wages, as well as grounding in the country of many dozens of thousands of Ukrainians, which before the implementation of COVID-19 related restrictions worked outside the country. This demand was satisfied by growing domestic dairy production, including of the fresh dairy (+3% in H1 2020 on y-o-y basis), cheese (+6% y-o-y), butter (+3%) but also galloping growth of dairy import, primarily from EU countries (for additional details refer *Dairy Markets*).

Declining real disposal income of the population in Russia, of cause, restrained the demand for dairy in the country, but was partly offset by the devaluation of RUB against EUR and USD, as well as continuing implementation of the state policy aimed at the import substitution, including of food staff goods. In particular, as the result of State subsidies for cattle farmers, the production of raw milk in Russia in H1 2020 grew by 3.6% on y-o-y basis. Russian dairy producers increased the production of drinking milk by 1.0%, sour cream - by 11.6%, butter - by 13.2%, cheese - by 10.5% in H1 2020 in comparison with H1 2019.

Milkiland's sales in H1 2020 in both main product segments of the Group, namely, Whole-milk products and Cheese&Butter were lower in volume and value terms than in H1 2019. The significant share of the respective contraction was delivered by Russian subsidiaries of the Group, namely Ostankino Dairy and Kursk-milk.

In particular, Ostankino's sales were significantly affected by the severe quarantine measures imposed by the Federal authorities of Russia, as well as municipal authorities of the City of Moscow, the main market of the Company. Those measures undermined the consumption of FMCG goods, including dairy, also in Q2 2020. During a reporting period Ostankino faced a difficulties with its operations imposed by the new owner of former Company's production assets acquired within the bankruptcy procedure against Ostankino had been implementing since April, 2017.

Since 6 March, 2020, Milkiland lost a control over the operations of its subsidiary LLC "Kursk milk" because of the adoption of the decision of insolvency of this company and implementation of the arbitrage management procedure by Arbitrage Court of Kursk oblast of Russian Federation. Due to this, the financial results of this company were incorporated to the consolidated financial results of Milkiland Group only partially.

As the result of the above mentioned situation, the Group also faced some difficulties with the production of several SKU's from Milkiland's products portfolio in Russia. To offset this and to support the continuity of its business operations in Russia, meet the obligations under the supply contracts with the local customers, Milkiland started to place the orders for production of dairy under the Group's TM's well-known in the local market at third-party dairy producer's facilities under full control of the technology and the quality of products by the Company personnel.

In H1 2020 the financial result of the Russian segment controlled by the Group slid to the negative territory on EBITDA level on the back of lower volume sales and higher production costs, latter due to higher prices for raw milk in Russia and devaluation of the national currency (raw milk prices were by c. 4.1% on average higher than in H1 2019, while RUB devalued by c. 4% against EUR on average in the comparison with the same period of last year). The revenue of this segment in H1 2020 dropped by twice in comparison with H1 2019 to c. EUR 17.4 million, the EBITDA stood at negative c. EUR 0.8 million in comparison with positive EUR 0.8 in the same period of 2019.

Some important changes took place in the Polish segment. Several years of loss-making activities of the Milkiland's Polish subsidiary Milkiland EU Sp. z o.o. pushed the Group's management towards searching the strategic investor for its operations in this country. As the result, the Group entered into the Investment agreement with the local partner, namely, CREMA VITA Sp. z o.o., which brought to Ostrowia the state-of-the-art cheese making technologies together with the valid contracts with B2B customers in the Western European markets. For the additional details of the deal refer *Material Factors and Events*. All in all, the control over Milkiland EU subsidiary, Ostrowia Sp. z o.o. with its main production asset Ostrowia cheese making plant, was taken over by the investor, while Milkiland remains the minority shareholder of this business.

Thus, the financial result of the Polish segment of the business in H1 2020 was not consolidated to the results of Milkiland Group in the reporting period.

Milkiland Ukraine in H1 2020 continued to focus on the development of sales, primarily in the key accounts channel, including by sales of its niche lactose-free products, as well as mould cheese. The growing competition from local and foreign players, pressure on the input costs due to higher prices for raw milk (+9.4% in H1 2020 on y-o-y basis) triggered the decline of the Ukrainian segment both at the top-line and EBITDA levels. The revenue of Milkiland Ukraine declined by c. 22% in the reporting period to c. EUR 19.6 million. Despite this the EBITDA of the segment stood at positive c. EUR 1.0 million in comparison with c. EUR 0.2 million in H1 2019.

Revenues in Cheese&butter segment in the first six months of 2020 decreased by c. 42% in comparison with the same period of 2019 to EUR 11.4 million on the back of decline of cheese sales volume in Ukraine, Russia and Poland. The EBITDA of the above-mentioned segment stood at c. EUR 1.0 million in comparison minor of EUR 0.09 million in H1 2019.

In H1 2020 Milkiland's revenues in Whole-milk dropped by twice in comparison with the same period of 2019 to c. EUR 16 million, mainly driven by the dramatic contraction of the operations in Russia. The EBITDA of this segment in the reporting period turned to negative EUR 0.7 million vs positive EUR 0.3 million in the same period of 2019.

In H1 2020 the Group continued its efforts aimed at the development of its international sales of dairy products, including in the new selling markets. In particular, Milkiland Intermarket continued the sales of kosher products (butter and dry milk products) in Israel, additional volumes of dry milk products were sold to China, dry milk products and also found its clients in the markets of Kazakhstan and Azerbaijan.

The revenue in Ingredients segment lost almost one third in value terms in H1 2020 in comparison with the same period of 2019 on the back of lower sales volumes. The margins on these sales were undermined by the growing input costs, especially fueled by the raw milk prices increase in Ukraine. The EBITDA stood at low positive c. 0.04 million. For more information on the situation on global dairy markets, raw milk price dynamics in Ukraine and Russia, please refer to section *Dairy Markets*.

As the result of the above mentioned geographical and product segments dynamics, macroeconomic and market factors, the Group's key financial results in H1 2019 were as follows. The Group's revenue declined by c. 43% y-o-y to c. EUR 37 million, while EBITDA slid to c. EUR 0.1 million in comparison with c. 0.5 million in H1 2019. In H1 2020 Milkiland posted a net loss of c. EUR 22.7 million in comparison with the negative financial result of c. EUR 7.3 million in the same period of the last year.

Dairy Markets

During first half of 2019 global dairy market demonstrated an absence of dynamics in all key dairy producing regions of the world.

In the reporting period EU increased the export of butter (+37% on y-o-y basis) and some types of dry milk products, including DWP (+13% y-o-y) and WMP (+11% y-o-y).

The active production season starts in Oceania. But the market players primarily follow the pessimistic expectations. In particular, the GDT index, the main industry index for this region, in the beginning of August, 2020, decreased by c. 5%.

China in H1 2020 demonstrated an opposite trends of import of main dairy products, including increased import of butter and DMP (+40% and 32% on y-o-y basis, respectively) but decreased supplies of imported WMP (-12.3% y-o-y).

The global butter market maintained a relative stability in the first half of 2020, except the situation in the USA butter market. In particular, the average prices for butter (82%) in EU in the beginning of August, 2020, stood at USD 3,900-4,000 per ton, in Oceania - at USD 3,500-3,700 per ton, being on the same levels as in July. At the same time, the prices in USA lost c.8% since July 2020 and in the middle of August, 2020, reached USD 3,195 per ton.

The situation in the global cheese market develops in opposite directions in the reporting period. The production and sales of this product is stable in EU, even with growing prices trends. In particular, the average prices for Gauda/Edam types of cheese in the middle of August, 2020, reached USD 3,400-3,600 per ton in comparison with USD 3,300-3,500 in July of the current year. The prices for cheese in Oceania did not change in this period. At the same time, significant decline of demand in HoReCa sector of USA led to the drop of prices for cheese in this country. The quotations of Cheddar prices in Chicago declined by more than one third in the above mentioned period to USD 3,750 per ton.

The situation in the global dry milk products market looked rather unfavorable in the reporting period. The declining trends of the prices for SMP were observed, while the prices for WMP remain more less stable. In particular, the prices for SMP in the middle of August, 2020, stood at USD 2,350-2,500 per ton in comparison with USD 2,400-2,550 in July. The prices for dry milk products also followed the declining trend in US.

In the Group's key market of Russia, according to Rosstat the output of the raw milk in H1 2020 grew by 3.6% to 15.8 million ton on y-o-y basis. Based on this background, Russian producers during reporting period increased the cheese production by 10.5%, butter - by 13.2% y-o-y, drinking milk - by 1%, curd cheese - 6.3% in comparison with H1 2019. Raw milk prices in H1 2020 were by c. 4.1% higher on average than in H1 2019.

In Ukraine, another key market of Milkiland, according to the State statistics Service of Ukraine the volume of raw milk produced in H1 2020 declined by c. 2.7% on y-o-y basis to c. 4.59 million ton. This was the main reason for growth of raw milk prices in the country, which were in the reporting period by 9.4% higher than in H1 2019. The production volume of the drinking milk stood at the same level as in H1 2019, while the production of butter increased by 3%, cheese - by 6%, SMP - by 17% y-o-y.

Some major changes in H1 2020 took place in foreign trade balance of dairy in Ukraine. The export of cheese from Ukraine in the reporting period was by 24% lower than in H1 2019, cheese export declined by 22%, butter - by 47%, SMP - by 24%, WMP - by 76% lower on y-o-y basis. Contrary to this negative dynamics, the import of dairy, primarily from EU countries was galloping in the first half of 2020. In particular, cheese import volumes grew by 287%, whole-milk products - by 253%, SMP - by 293%, WMP - by 259%, while the butter import leapt by 40 times.

As the result, Ukraine had been moving from the historical status of net exporter of dairy towards net importer of these goods. To compare, the total value of dairy export from Ukraine in H1 2020 stood at USD 154 million, while the value of dairy import reached USD 131 million. Ukraine became a net importer of whole-milk products and cheese.

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2020 and 2019 in thousands of Euro.

Selected financial data

	6 m 2020	6 m 2019
I. Revenues	36,967	65,880
II. EBITDA	110	525
III. Operating profit	(6,970)	(9,111)
IV. Profit (loss) before tax	(22,736)	(7,524)
V. Net profit (loss)	(22,761)	(7,276)
VI. Cash flows provided by (used in) operating activities	(1,370)	8,945
VII. Cash flows used in investing activities	(145)	(545)
VIII. Cash flows (used in) provided by financing activities	(125)	(5,828)
IX. Total net cash flow	(1,640)	2,572
X. Total assets	168,517	167,699
XI. Current liabilities	168,324	167,429
XII. Non-current liabilities	13,125	13,282
XIII. Share capital	3,125	3,125
XIV. Total equity	(12,932)	(13,012)
XV. Weighted average number of shares	31,250	31,250
XVI. Profit (loss) per ordinary share, EUR cents	(72.77)	(23.24)

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2020	6 m 2019
Revenue	36,967	65,880
Change in fair value of biological assets	(1)	1
Cost of sales	(31,124)	(57,312)
Gross profit	5,842	8,569
Operating income (expense), net	(12,812)	(17,680)
Operating profit	(6,970)	(9,111)
Net finance expense and other non-operating income (expense)	(15,794)	1,587
Profit (loss) before tax	(22,736)	(7,524)
Income tax (expense) benefit	(25)	248
Net profit (loss)	(22,761)	(7,276)
Other comprehensive income (loss)	32,338	(532)
Total comprehensive income	9,577	(7,808)
Net profit (loss) attributable to equity holders of the parent company	(22,742)	(7,263)
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	(72.77)	(23.24)

Revenue

In the first half of 2020 Milkiland's top-line significantly declined by c. 44% on y-o-y basis to c. EUR 37 million on the back of lower sales volumes in Russia and Ukraine, as well as exclusion of the financial result of the Polish segment of the business from the consolidated financials of the Group (for the

Due to the same factor of lower sales volumes in the above mentioned markets the revenues in Cheese&Butter, Whole milk products segments in H1 2020 were by 42% and 50% lower, respectively than in the first half of the year 2019. Whole milk products segment was the main contributor in the Group's revenues in the reporting period with the share of 43% in the total revenues of Milkiland vs 48% in H1 2019. Mostly weak activity and declining global prices trends in the market of dry milk products in H1 2020 (for additional details refer *Dairy Markets*) was one of the factors behind the decline of Milkiland revenues in Ingredients segment. Another important factor was connected with the higher input prices for dry milk products production, triggered by 9.4% of the prices for raw milk in Ukraine in H1 2020 on average in comparison with the same period of 2019. As the result, the farm-gate price in Ukraine for the above mentioned products sometimes became non-competitive in comparison with the global prices for these products.

Breakdown of the Group's consolidated revenue by product in H1 2020 and H1 2019

	2020		2019		2020 vs. 2019	
	Revenue (‘000 EUR)	Share in total (%)	Revenue (‘000 EUR)	Share in total (%)	‘000 EUR	%
Cheese & butter	11,402	31%	19,683	30%	(8,281)	-1%
Whole milk products	15,777	43%	31,639	48%	(15,862)	-5%
Ingredients and other	9,789	26%	14,558	22%	(4,769)	4%
Total	36,967	100%	65,880	100%	(28,913)	0%

Cost of sales and Gross profit

Cost of sales in the reporting period decreased by 46% to EUR 31.1 million mainly fueled by lower sales volumes in the key markets of the Group. In addition to this factor, lower raw material costs in H1 2020 (- 52.7% y-o-y) were also triggered by higher input prices for raw milk both in Ukraine (+9.4% y-o-y) and Russia (+4.1% y-o-y) partly offset by the revaluation of Ukrainian hryvnya against EUR (+6% on average in H1 2020 on y-o-y basis) but reinforced by the devaluation of Russian rouble against European currency (with the same +6% on average y-o-y).

Breakdown of the Group's cost of sales in H1 2020-2019, '000 EUR and %

	2020		2019	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	19,270	62%	40,767	61.9%
Wages and salaries	2,330	7%	3,900	5.9%
Depreciation	2,004	6%	3,285	5.0%
Transportation costs	1,445	5%	1,683	2.6%
Gas	829	3%	1,604	2.4%
Other	5,246	17%	6,073	9.2%
Total	31,124	100%	57,312	87.0%

The Group's gross profit decreased by c. 32% to EUR 5.8 million mainly due to correction of the top-line, the gross margin stood at 15.8% in comparison with 13% in H1 2019.

Profit from operations and EBITDA

Lower gross profit of the Group partly offset by the decreased operational expenses led to negative operational result of Milkiland in the amount of c. EUR 7.0 million (c. EUR 9.0 million in the same period of 2019).

Despite this, EBITDA of Milkiland in H1 2020 stood at minor positive. EUR 0.1 in comparison with EUR 0.5 million in H1 2019.

Profit before tax and Net profit

The devaluation both of Russian rouble and Ukrainian hryvnya as on the reporting date of 30 June 2020 in comparison with the same date of 2019 by 8.7% and 0,5%, respectively, triggered the noticeable finance foreign exchange loss of EUR 13.0 million as the financial expense of Milkiland.

As the result, the Group recognized loss before tax of c. 22.7 million compared the negative result on this level of EUR 7.5 million in the same period of 2019. Net loss for the first half of 2020 amounted c. EUR 22.8 million vs c. EUR 7.3 of net loss for H1 2019.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2020	December 31, 2019	June 30, 2019
Cash and cash equivalents	683	2,355	2,914
Trade and other receivables	53,871	53,990	39,221
Inventories	8,934	11,696	9,603
Other current assets	13,262	9,667	10,061
Total current assets	76,750	77,708	61,799
PPE	63,043	81,715	81,040
Deferred income tax assets	-	-	90
Other non-current assets	16,423	4,645	5,145
Total non-current assets	91,767	100,100	105,900
Total assets	168,517	177,808	167,699
Trade and other payables	88,958	98,584	80,425
Short-term loans and borrowings	73,557	77,208	79,972
Other current liabilities	5,809	9,016	7,032
Total current liabilities	168,324	184,808	167,429
Loans and borrowings	1,531	1,857	2,241
Deferred income tax liability	9,688	11,033	10,278
Other non-current liabilities	1,906	2,619	763
Total non-current liabilities	13,125	15,509	13,282
Total liabilities	181,449	200,317	180,711
Share capital	3,125	3,125	3,125
Revaluation and other reserves	85,976	73,256	80,782
Retained earnings	(103,198)	(100,259)	(98,237)
Total equity attributable to equity holders of the parent company	(14,097)	(23,878)	(14,330)
Non-controlling interests	1,165	1,369	1,318
Total equity	(12,932)	(22,509)	(13,012)
Total liabilities and equity	168,517	177,808	167,699

Assets

The current assets of Milkiland in the reporting period increase to c. EUR 76.8 million as of 30 June 2020 in comparison c. EUR 61.8 million as of 30 June 2019. At the same time, non-current assets of the Group declined from c. EUR 106 million as of 30 June 2019 to c. EUR 91.8 million as of 30 June 2020 due to two reasons. First, decreased control over the main Polish production subsidiary of the Group, Ostrowia Sp. z o.o. to the Investor (for additional details refer *Material Factors and Events*) the assets of this subsidiary were span-off from Milkiland's BS. Second, the PPE's in the Ukrainian segment of the business changed the BS value due to the devaluation of Ukrainian hryvnya as of 30 June 2020 in comparison with the same date of 2019. This was also reflected in the decrease of PPE's of the Group by c. EUR 18.7 million to c. EUR 63 million as of 30 June, 2020 in comparison with 31 December 2019.

Liabilities and equity

Total liabilities was almost stable as of 30 June 2020 in comparison with the same date of the last year (c. EUR 181.4 million vs c. EUR 180.7 million) based at practically stable current and non-current liabilities.

The Group's short-term loan portfolio decreased by c. 8% to EUR 73.6 million as of 30 June 2020 in comparison with the same date of 2019 due to foreign exchange loss and decrease of the Group's debt because of the transfer of control over the Polish subsidiary to the third-party Investor.

The Group's equity due to the negative retained earnings as of 30 June 2020 stood at negative c. EUR 14.1 million (practically the same as of 30 June 2019).

Basis of Preparation

The condensed consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

Material Factors and Events

Material Factors and Events during the Reporting Period

Implementing an arbitrage management at LLC “Kursk milk”

On March 20, 2020, Milkiland published an official statement that the Company received the information that on March 6, 2020, the Arbitrage Court of Kursk oblast (region) of Russian Federation adopted a decision of insolvency of LLC “Kursk milk” (“the Debtor”), subsidiary of Milkiland Group, and implemented of an arbitrage management of LLC “Kursk milk” within the bankruptcy procedure of the Debtor, according to the petition of Public JSC Bank “Vozroждение” (“the Creditor”).

This petition claimed the inability of the Debtor to repay the indebtedness to the Creditor in the total amount of RUB 101.9 million (c. EUR 1.2 million) during for more than 3 months term.

The Court also appointed an arbitrage administrator of LLC “Kursk milk”. Since that time, Milkiland lost a control over operations of this subsidiary. The financial results of LLC “Kursk milk” were incorporated to the consolidated financial results of Milkiland Group only partially.

The management of the Group have been searching the ways of the settlement of the indebtedness with the creditors of LLC “Kursk milk”.

Transfer of the corporate seat from the Netherlands to Cyprus

On April 22, 2020, the Board of Directors of Milkiland N.V. adopted a resolution on ratifying the plan to cross-border migrate and transfer the Company's seat from Netherlands to Cyprus by means of converting the Company from a public company governed by Dutch Law (naamloze vennootschap) to a public limited liability Company under Cypriot Law (the “Migration”). The Board also ratified a management report which explains the rationale for the proposed migration (the “Management Report”). The Board also decided of convening of an annual general meeting of shareholders which shall put the planned Migration to a vote. The publication of the convening notice will take place at least 42 days before the meeting.

The details and rationale for the Migration are indicated in the Board's Report, the plan of cross-border migration were published on the website of the Company.

(http://www.milkiland.nl/en/investors/general_information/corporate_documents/).

The plan for Migration takes into account the judgment of the European Court of Justice of 16 December 2008, Case C-210/06 regarding Cartesio Oktató és Szolgáltató bt, that deals with cross-border transfer of the seat of a company within the meaning of article 48 of the Treaty Establishing the European Community (the “EC”). The European Court of Justice determined in the Cartesio-Judgement that the right to establishment laid down in article 43 taken with article 48 EC - that deals with the freedom of establishment of companies - implies that companies can transfer their corporate seat to another Member State without dissolution and liquidation of the company, provided that they convert into a company governed by the law of the other Member State, to the extent that it is permitted to do so under the laws of that other Member State.

Furthermore, Cypriot Law permits that a public company incorporated under the laws of the Netherlands converts itself into a public limited liability company governed by Cyprus law without being dissolved.

The new name of the Company after the Migration will be Milkiland Public Company Limited. The Company will be a public limited liability company organized and existing under the laws of Cyprus, having its corporate seat in Nicosia, Cyprus and registered with the Cyprus Registrar of Companies.

Pursuant to the Management Report, the main purpose of implementing the Migration is to simplify the structure of the group of companies of which the Company is a part of.

The Migration will take place without the Company being dissolved or ceasing to exist and it will not lead to the reincorporation of the Company. Consequently, the shares in the capital of the Company will not be replaced by new shares and will still be listed on the Warsaw Stock Exchange.

The Migration will not affect any legal relationship between the Company and third parties. The Migration will not entitle any third parties to terminate any existing agreement and legal relationship with the Company. The business of the Company will be continued and will not change as a result of the Migration.

As a result of the Migration, the Company will no longer be subject to Dutch corporate law and will become subject to Cyprus corporate law.

The shares in the capital of the Company will not be replaced by new shares. The voting rights and rights to profit and other distributions will not be affected by the Migration.

The Migration will cause the corporate seat of the Company to be transferred from Amsterdam, the Netherlands, to Nicosia, Cyprus. Consequently, the Company will lose its corporate domicile in the Netherlands. As a result thereof creditors will no longer be able to commence legal proceedings against the Company in the Netherlands based on its corporate domicile. Creditors will be able to commence legal proceedings against the Company in the Netherlands based on agreements provided that such agreements are governed by the laws of the Netherlands or provided that parties to such agreement have agreed that proceedings are to be submitted to the exclusive jurisdiction of the courts of the Netherlands.

Publication of the Annual Report of Milkiland Group for 2019 without an independent auditor opinion

On April 30, 2020, Milkiland published an official statement that the Company during the period from the end of March 2019 till October, 2019 the Company (i) had been negotiating with all audit firms having PIE license (a license for audit of a public interest entities) in the Netherlands and (ii) by results of the negotiations, all the audit companies had informed the Company about their unavailability to accept an audit engagement from the Company.

As a result, the Company did not enter into engagement agreement with any audit firms and did not appoint the auditor in the Netherlands to audit its annual financial statements for 2019. Thus, the Company will publish the Annual report of Milkiland Group for 2019 without an independent auditor's opinion.

The Board of Directors of Milkiland on the meeting held on April 22, 2020 recommended to the Company's shareholders meeting, which will be hold on June, 26, 2020 to approve the cross-border migration and transfer of corporate seat of the Company from the Netherlands to the Republic of Cyprus and conversion of the legal form of the Company from a public company organized under the laws of the Netherlands to a public limited company under the laws of Cyprus.

The Re-domiciliation procedure of Milkiland is expected to be completed by the end of August, 2020. After completion of Re-domiciliation the Company will engage to audit its annual financial statements for 2019 audit company on Cyprus with a PIE license (the preliminary negotiations regarding future engagement were conducted) which will provide the services of auditing of annual financial statements for 2019 of Milkiland.

Preparation of auditing of annual financial statements for 2019 of the Company is anticipated to be finished by the end of November 2020 or at early December 2020 the latest and then audited annual financial statements for 2019 of the Company will be published on the Company's website and simultaneously filed with the AFM as required the Dutch law.

Resignation of the Non-executive Director of the Group

On May 22, 2020, Milkiland informed that that the Services agreement between Milkiland N.V. and Mr. Pavlo Sheremeta on his appointment as a Non-executive director of the Board of Directors of Milkiland N.V. dated 30 June 2017 was terminated in a good faith by mutual consent of the parties on April, 30, 2020.

Change of holding of shares of Milkiland N.V.

On June 19, 2020, Milkiland informed that that on June 18, 2020, the Board received the notification from R-Assets Cooperatief U.A. (hereinafter "R-Assets Cooperatief"), with its registered seat in De Cuserstraat 93, 1081CN Amsterdam, the Netherlands, dated June 15 2020, on decline of holding of shares of Milkiland N.V. below the threshold of 5% of the total number of votes at the General Meeting of the Shareholders of the Company due to the selling transaction made on June 5, 2020.

On June 19, 2020, R-Assets Cooperatief holds 0 (zero) shares of the Company.

Before the transaction R-Assets Cooperatief held 1,562,800 (one million five hundred and sixty two thousand eight hundred) shares of the Company that constituted 5.0% of Company's share capital and corresponded to 1,562,800 (one million five hundred and sixty two thousand eight hundred) votes or 5.0% of the voting rights at the General Meeting of Shareholders of the Company.

Also, the Board of Directors of the Company informs that on June 18, 2020, the Board received the notification from R-Assets N.V., with its registered seat in Kaya Richard J. Beaujon Z/N, Curacao, Art. 160, Par. 2, Point 4 B, of crossing the threshold of 5% of the total number of votes at the General Meeting of the Shareholders of the Company due to the share purchase transaction made on June 5, 2020.

On June 19, 2020 R-Assets N.V. holds 1,562,800 (one million five hundred and sixty two thousand eight hundred) shares of the Company that constituted 5.0% of Company's share capital and corresponded to 1,562,800 (one million five hundred and sixty two thousand eight hundred) votes or 5.0% of the voting rights on the General Meeting of Shareholders of the Company.

Before the transaction R-Assets N.V. held 0 (zero) shares of the Company.

Resolutions of the Annual General Meetings of Shareholders of Milkiland N.V. with respect of the planned transfer of the company's corporate seat from the Netherlands to Cyprus

On July 2, 2020, Milkiland published an official statement that in connection with: (i) Current Report No 3/2020 dated 22 April 2020 regarding the resolution approving Milkiland N.V.'s (the "**Company**") migration from Netherlands to Cyprus by the Board of Directors of the Company (the "**Board**") and (ii) Current Report No 5/2020 dated 15 May 2020 concerning convening of the Annual General Meeting of Shareholders of the Company on 26 June 2020 (the "**Meeting**"), the Board, acting pursuant to the Article 17 sec. 1 of the Market Abuse Regulation, hereby informs that the Annual General Meeting of Shareholders of Milkiland N.V. on 26 June 2020 adopted the following resolutions with respect to intended transfer of Company's Corporate Seat from Netherlands to Cyprus:

- **Resolution no 5** on approval of cross-border migration and transfer of the Milkiland N.V.'s seat from the Netherlands to the Republic of Cyprus and to convert the legal form of the Company from a public company organized under the laws of the Netherlands to a public limited company under the laws of Cyprus
- **Resolution no 6** on approval of change of company name to Milkiland Public Company Limited
- **Resolution no 7** on adoption of decision for the new registered office address of the Company upon its registration in Cyprus as a continuing company
- **Resolution no 8** on amendment to and approval of the re-adoption of the Company's new Articles of Association drafted in compliance with the laws of Cyprus

The explanatory notes to the agenda of the Meeting were published on the Company's website by the following link:

http://www.milkiland.nl/en/investors/general_meetings_of_shareholders/2020/convocation_documents_of_the_annual_general_meeting_of_shareholders_of_milkiland_n_v/

Submission of the application for transfer of Company's corporate seat to Cyprus

On August 4, 2020, Milkiland published the information that the application for transfer of the Company's corporate seat from Netherlands to Cyprus and registration of the transfer was submitted to the Registrar of Companies in Cyprus on 04 August 2020, together with all applicable documentation.

The Registrar of Companies will review the documents submitted and will issue a temporary certificate of registration of the Company in Cyprus, pursuant to section 354E of the Cyprus Companies Law, Cap. 113.

Pursuant to section 354F of the Cyprus Companies Law, Cap. 113, the effective date of transfer of the corporate seat of the Company to Cyprus will be the date that the Registrar of Cyprus issues the temporary certificate of registration.

Signing of the Investment agreement in Poland

On August 31, 2020, Milkiland published an official statement that the Investment agreement was signed on September 23, 2019, between the Group's Polish subsidiaries MILKILAND EU Sp. z o.o. and Ostrowia Sp. z o.o. and CREMA VITA Sp. z o.o. on implementation of the investment project aimed at the improvement of the financial standing of Ostrowia Sp. z o.o. and its further development including by the implementation of the new production technology.

Ostrowia Sp. z o.o. fully controls the main production asset of the Group in Poland, namely, Ostrowia cheese making plant.

According to the agreement, the Investor made the contribution in kind by the know-how technology of special type of cheese production with the respective intellectual property rights in the exchange of the shares in Ostrowia Sp. z o.o. The value of this contribution stood at PLN 420 thousand. Investor also opened the new markets for Ostrowia plant produce based at the valid contracts on special types of cheese supplies with B2B customers in the Western European markets.

Company's management took the decision independently, since not bound by the approval from the Board of Directors of Milkiland N.V.

As the result of the Investment agreement, the Investor, namely CREMA VITA Sp. z o.o., with its UBO Mr. Anatolii Mylevskiy, controlling the stake of 98% of the company's equity (third party person to the Group), took over the control over 80% stake in Ostrowia Sp. z o.o. Also, Milkiland's Chief Operational Officer, Mr. Olga Yurkevich controls the minority stake of 2% of the capital of the Investor.

Milkiland remains the minority shareholder in Ostrowia Sp. z o.o. with the stake of 20% of its share capital.

Material Factors and Events after the Reporting Date

Strategic Plans and Initiatives for H2 2020

The Group's management plan to further implement in the second half of 2020 the strategic plans and initiatives aimed at seeking of new markets for the Group, stabilizing of Milkiland's positions in the key market of Russia and strengthening the business in Ukraine, developing a new partner-business model in Poland, as well as the improvement of the efficiency of its business. It includes, *inter alia*, the following measures:

Finance:

- Continue the negotiations with the Swestal Holding Ltd., the new lender under the Syndicated Loan Facility in order to find the ways of the mutually acceptable settlement of this indebtedness.
- Continue the fulfillment of the obligations under the signed debt restructuring agreements with the creditors within Ukrainian and Polish perimeter of the Group, also focusing on prolongation of previously signed restructuring agreements.
- Searching for the debt settlement ways with the creditors in Russian segment of the business, including within the bankruptcy procedure of LLC "Kursk milk".

Production:

- Develop a system of production of the dairy products under Milkiland TM's, including Dobryana and Latter, on the third-party dairy production facilities in Russia.
- Continue the production of the kosher products for export to Israel, dry milk products for export to global market, including China, CIS countries at the production plants of Milkiland Ukraine.
- Continue to implement the new technologies of production of special types of cheese under the partner business scheme in Ostrowia cheese making plant in Poland for export to EU countries.

Raw materials base:

- Continue a fine tuning of the operations of Milkiland-Agro modern dairy farm and other milk farming operations in order to increase the milk yields to support the further growth of in-house milk production.
- Support a further evolutionary development of LLC Moloko Kraina business.

New markets and distribution:

- Further develop a distribution network in Kazakhstan and other CIS countries, in China, in Israel and other Middle East countries.
- Seek the new opportunities of profitable participation in the international trade of dairy goods in the global market.
- Develop the profitable international trade, including by butter, by different types of cheese and dry milk products, including through EU-based traders and by means of direct sales to EU clients.
- Use opportunities of export to EU of Ukrainian made dairy, including mould cheese, within the quotas agreed under the FTZ agreement between Ukraine and EU.

Sales and marketing:

- Increase of sales in Ukrainian dairy market by means of promotion of new dairy goods, including in the economy segment of the market, due to shifting habits of Ukrainian customers.
- Maintain the presence of the dairy under Milkiland TM's on the shelves of key account clients in Russia.

REPRESENTATION

of the Board of Directors
of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 30 June 2020 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the six months ended 30 June 2020 gives a true view of the developments, achievements and situation of the Company, including a description of the key risks and threats.

Board of Directors of Milkiland N.V.

Amsterdam, 31 August 2020

O. Rozhko
/signed/

A. Yurkevych
/signed/

O. Yurkevich
/signed/

W. S. van Walt Meijer

V. Rekov

/signed/

/signed/



Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

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MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the six months ended 30 June 2020
(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2020 (unaudited)	31 December 2019 (unaudited)	30 June 2019 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	683	2,355	2,914
Trade and other receivables	7	53,871	53,990	39,221
Inventories	8	8,934	11,696	9,603
Current biological assets	12	3,311	2,601	2,429
Current income tax assets		46	166	297
Other taxes receivable	9	9,905	6,900	7,335
		76,750	77,708	61,799
Non-Current Assets				
Goodwill	10	1,330	1,550	1,460
Property, plant and equipment		63,043	81,715	81,040
Investment property		12,301	13,740	19,625
Non-current biological assets	12	2,388	1,526	2,218
Other intangible assets		716	1,569	1,467
Deferred income tax assets		-	-	90
Investments in associates		11,989		
		91,767	100,100	105,900
TOTAL ASSETS		168,517	177,808	167,699
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	88,958	98,584	80,425
Current income tax liabilities		700	229	404
Other taxes payable	14	5,109	8,787	6,628
Short-term loans and borrowings		73,557	77,208	79,972
		168,324	184,808	167,429
Non-Current Liabilities				
Loans and borrowings	15	1,531	1 857	2,241
Deferred income tax liabilities		9,688	11 033	10,278
Other non-current liabilities		1,906	2,619	763
		13,125	15,509	13,282
Total liabilities		181,449	200,317	180,711
Equity attributable to owners of the Company				
Share capital	16	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		69,860	70,278	68,174
Currency translation reserve		(32,571)	(45,705)	(36,079)
Retained earnings		(103,198)	(100,263)	(98,237)
		(14,097)	(23,878)	(14,330)
Non-controlling interests		1,165	1,369	1,318
Total equity		(12,932)	(22,509)	(13,012)
TOTAL LIABILITIES AND EQUITY		168,517	177,808	167,699

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2020
(All amounts in euro thousands unless otherwise stated)

	Notes	2020 (unaudited)	2019 (unaudited)
Revenue	17	36,967	65,880
Change in fair value of biological assets		(1)	1
Cost of sales	18	(31,124)	(57,312)
Gross Profit		5,842	8,569
Selling and distribution expenses	19	(3,013)	(5,193)
Administrative expenses	20	(4,281)	(6,059)
Other income/(expenses), net	21	(5,508)	(6,428)
Operating profit/(loss)		(6,970)	(9,111)
Finance income	22	1,409	5,415
Finance expenses	23	(17,203)	(3,828)
Investment income		28	
Profit/(loss) before income tax		(22,736)	(7,524)
Income tax	24	(25)	248
Net profit/(loss) for the year		(22,761)	(7,276)
Other comprehensive income/(loss)			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange differences on translating to presentation currency		17,781	(532)
Other movements in retained earnings		14,557	
Total comprehensive income/(loss)		9,577	(7,808)
Profit/(loss) attributable to:			
Owners of the Company		(22,742)	(7,263)
Non-controlling interests		(19)	(13)
		(22,761)	(7,276)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		9,781	(7,878)
Non-controlling interests		(204)	70
		9,577	(7,808)
Earnings per share (EURO cent)		(72.77)	(23.24)

MILKILAND N.V.
Condensed consolidated interim statement of cash flows
For the six months ended 30 June 2020
(All amounts in euro thousands unless otherwise stated)

	Note	2020 (unaudited)	2019 (unaudited)
Cash flows from operating activities:			
Gain/(Loss) before income tax		(22,736)	(7,524)
<i>Adjustments for:</i>			
Depreciation and amortization	21	2,399	4,140
(Gain)/Loss from disposal and write off of inventories	21	(54)	(51)
Change in provision and write off of trade and other accounts receivable	21	108	68
Change in provision and write off of unrealised VAT	21	(6)	(65)
(Gain)/loss from write off, revaluation and disposal of non-current assets	21	3,238	5,494
Change in fair value of biological assets		1	(1)
Operational foreign exchange results, net	21	246	(85)
Finance income	22	(1,409)	(5,415)
Finance expenses	<u>23</u>	17,203	3,828
Write off of accounts payable	21	1	(35)
Operating cash flow before movements in working capital		436	354
(Increase)/ Decrease in trade and other accounts receivable		(3,280)	(127)
Decrease/(Increase) in inventories		2,646	1,638
(Increase)/ Decrease in biological assets		(426)	(1,153)
Increase/ (Decrease) Increase in trade and other payables		(283)	8,818
Decrease/(Increase) in other taxes receivable		26	(19)
Increase/ (Decrease) in other taxes payable		(451)	554
Net cash provided by/(used in) operations:		(1,332)	10,065
Income taxes paid		(54)	(941)
Interest received		17	14
Interest paid		(1)	(193)
Net cash provided by/(used in) operating activities		(1,370)	8,945
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(145)	(554)
Proceeds from sale of property, plant and equipment	11	-	9
Acquisition of subsidiaries, net of cash acquired		-	-
Net cash used in investing activities		(145)	(545)
Cash flows from financing activities			
Proceeds from borrowings	15	-	197
Repayment of borrowings	15	(125)	(6,025)
Commission paid and fair value adjustment		-	-
Net cash (used in)/provided by financing activities		(125)	(5,828)
Net increase in cash and equivalents		(1,640)	2,572
Cash and equivalents, beginning of the period	6	2,355	334
Effect of foreign exchange rates on cash and cash equivalents		(32)	8
Cash and equivalents, end of the period	6	683	2,914

MILKILAND N.V.
Condensed consolidated interim statement of changes in equity
For the six months ended 30 June 2020
(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							Total equity (unaudited)
	Share capital (unaudited)	Share premium (unaudited)	Foreign currency translation reserve (unaudited)	Revaluation reserve (unaudited)	Retained earnings (unaudited)	Total stockholders' equity (unaudited)	Non-controlling interests (unaudited)	
Balance at 1 January 2019	3,125	48,687	(36,126)	75,220	(97,358)	(6,452)	1,248	(5,204)
Profit/Loss for the period	-	-	-	-	(7,263)	(7,263)	(13)	(7,276)
Other comprehensive gain/(loss), net of tax effect	-	-	47	(649)	(13)	(746)	82	(664)
Total comprehensive loss for the period	-	-	47	(649)	(7,276)	(7,878)	70	(7,808)
Realised revaluation reserve, net of income tax	-	-	-	(6,397)	6,397	-	-	-
Balance at 30 June 2019	3,125	48,687	(36,079)	68,174	(98,237)	(14,330)	1,318	(13,012)
Balance at 1 January 2020	3,125	48,687	(45,705)	70,278	(100,263)	(23,878)	1,369	(22,509)
Profit/Loss for the period	-	-	-	-	(22,742)	(22,742)	(19)	(22,761)
Other comprehensive gain/(loss), net of tax effect	-	-	13,134	4,865	14,524	32,532	(185)	32,338
Total comprehensive loss for the period	-	-	13,134	4,865	(8,218)	9,781	(204)	9,577
Realised revaluation reserve, net of income tax	-	-	-	(5,283)	5,283	-	-	-
Balance at 30 June 2020	3,125	48,687	(32,571)	69,860	(103,198)	(14,097)	1,165	(12,932)

1 The Group and its operations

These condensed consolidated interim financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the six months ended 30 June 2020 for Milkiland N.V. (the “Company”) and its subsidiaries (together referred to as the “Group” or “Milkiland”).

The financial statements were approved by the Board of Directors on 28 August 2020.

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2009 the Company was converted into a public limited liability company (N.V.). The address of its registered office is De Ceserstraat 93, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

As at 30 June 2019 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

The Company mainly acts as a holding company and exercises control over the operations of its subsidiaries.

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide. The production facilities of the Group are located in Ukraine, in Russia and in Poland, able to process up to 1,330 thousand tons of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

As at 30 June 2020, the Group employed 2,366 people.

MILKILAND N.V.
Condensed consolidated interim financial statements
For the six months ended 30 June 2020
(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations (continued)

Subsidiaries of the Company are presented below:

Name	Country of incorporation	Principal activity	30 June 2020	Effective share of ownership	
				31 December 2019	30 June 2019
MLK Finance Limited	Cyprus	Trade	100.0%	100.0%	100.0%
Milkiland Intermarket (CY)	Cyprus	Trade	100.0%	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	Trade	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	Managing/Trade	100.0%	100.0%	100.0%
Ostrowia sp. z.o.o	Poland	Production entity	20.0%	100.0%	100.0%
UA TRADE Sp. z o.o.	Poland	Trade	100.0%	100.0%	100.0%
JSC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Milkiland RU	Russia	Managing/Trade	100.0%	100.0%	100.0%
LLC Kursk-Moloko	Russia	Production entity	100.0%	100.0%	100.0%
LLC Novomoskovsk Dairy	Russia	Production entity	100.0%	100.0%	100.0%
DE Aromat	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Prometey	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Ros	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	Trade	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	Production entity	76.0%	76.0%	76.0%
PrJSC Gorodnia Milk Plant	Ukraine	Production entity	95.2%	95.2%	95.2%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Milkiland Ukraine	Ukraine	Managing	100.0%	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	Production	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	Managing	100.0%	100.0%	100.0%
PrJSC Transportnyk	Ukraine	Service provider	70.3%	70.3%	70.3%
LLC Milkiland Agro	Ukraine	Agricultural	100.0%	100.0%	100.0%
DE Agrolight	Ukraine	Production entity	100.0%	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Bahmachregionpostach	Ukraine	Grain elevator	100.0%	100.0%	100.0%
ALLC Nadiya	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Uspih-Mena-Plus	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Agro-Mena	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Lendinvest 3000	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Agrolendinvest	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Phobostrade	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Kilchensky Berig	Ukraine	Investment assets	100.0%	100.0%	100.0%
PrJSC Iskra Plus	Ukraine	Agricultural	98.1%	98.1%	98.1%
LLC Kholod Property	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Syrnyy Mayster	Ukraine	Production entity	100.0%	100.0%	100.0%
Milkiland Corporation	Panama	Trade	100.0%	100.0%	100.0%
Newholm Systems S.A.	Panama	Trade	100.0%	100.0%	100.0%
Agrointer Corporation	Panama	Trade	100.0%	100.0%	100.0%
LLC Cross Value	Marshall Isl.	Trade	-	100.0%	100.0%
Dominic Supreme LP	Scotland	Trade	100.0%	100.0%	100.0%
LLC Agro-Vitchizna	Ukraine	Agricultural	100.0%	-	-
LLC Okhtyrskyi Cheese Plant	Ukraine	Agricultural	100.0%	-	-

MILKILAND N.V.
Condensed consolidated interim financial statements
For the six months ended 30 June 2020
(All amounts in euro thousands unless otherwise stated)

LLC Romny Milk Plant	Ukraine	Agricultural	100.0%	-	-
LLC Mena Cheese	Ukraine	Agricultural	100.0%	-	-
LLC MLK Slavuta	Ukraine	Agricultural	100.0%	-	-
LLC MLK Sumy	Ukraine	Agricultural	100.0%	-	-
LLC MLK Bakhmach	Ukraine	Agricultural	100.0%	-	-
LLC Polonne Plus	Ukraine	Agricultural	100.0%	-	-
LLC Nizhynskyi Milk PLant	Ukraine	Agricultural	100.0%	-	-

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with IFRS.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2019.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Adoption of new or revised standards and interpretations.

On the whole, the accounting policies adopted are consistent with those of the previous financial year. Certain new IFRSs and Interpretations became effective from 1 January 2020. Listed below are those new or amended standards or interpretations which could be relevant to the Company:

IFRS 16 Leases. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 17 Insurance Contracts. IFRS 17 is the new financial reporting standard for insurance contracts that addresses the recognition and measurement, presentation and disclosure of information. IFRS 17 will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (life insurance and insurance other than life insurance, direct insurance and reinsurance), regardless of the type of an entity that issues them, as well as certain guarantees and financial instruments with discretionary participation conditions. There are several exceptions from the scope of application.

IFRS 17 becomes effective for reporting periods beginning on or after 1 January 2021, and comparative information is required. Earlier application is permitted provided that the entity also applies IFRS 9 and IAS 15 on or before the date of the first application of IAS 17. This standard is not applicable to the Company.

IFRIC 23 Uncertainty over Income Tax Treatments

Whenever requirements of tax legislation are unclear in relation to a particular operation or to specific circumstances, the main criterion is whether the probability is high that the tax authority will agree with the tax claims interpretation chosen by an entity.

If the answer is positive, the entity shall reflect the same amount in the financial statements and consider the need to disclose the existence of uncertainty. If the answer is negative, the amount reported in the financial statements will differ from the amount in the tax return, because it is estimated taking into account the existing uncertainty.

To reflect this uncertainty, one of the following two estimation methods is used, depending on which one will allow to a high accuracy to predict the outcome of the uncertainty:

- the most likely amount, or
- the expected value.

The Interpretation also requires that judgments and estimates that have been formed by the entity were reviewed in the event of a change in facts and circumstances - for example, due to a tax audit or actions taken by the tax authorities, subsequent changes to the tax rules, or after the expiration of the period during which the tax authority has the right to verify the correctness of the tax calculation.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Amendments to IFRS 3 Business Combinations

The amendments clarify the key definition of business.

In the prior definition, business was defined as a set of activities and assets that can be managed to provide income in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

According to the new definition, a business is an integrated set of processes and assets capable of implementation and management in order to provide goods or services to customers, generation of investment income (such as dividends or interest) or generation of other income from ordinary activities.

The amendments apply to periods beginning on or after 1 January 2020; early application is permitted. The amendment will not affect the Company's financial statements.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at fair value or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of the principal and interest on the outstanding principal amount" (SPPI criterion) and the instrument is within the relevant business model allowing such a classification.

The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of which event or circumstance leads to early termination of the contract, and also regardless of which party pays or receives a reasonable compensation for early termination of the contract.

These amendments are applied retrospectively and come into force for annual periods beginning from 1 January 2019. Early application is allowed. These amendments will not affect the Company's financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in respect of materiality determination

The IFRS Committee decided to clarify the definition of materiality, making it more consistent and suitable for all standards. The previous definition in IAS 1 emphasized that the omission or incorrect reflection of significant elements affects the economic decisions of users made on the basis of financial statements. In the new definition, information is considered material if its omission, incorrect reflection or hiding in the financial statements may, in accordance with reasonable expectations, influence the decision of the main users of general-purpose financial statements, who make them based on such financial statements that contain information about the specific reporting entity.

The amendments apply to periods beginning on or after 1 January 2020; early application is permitted.

Amendments to IAS 19 Employee Benefits - Plan Amendment, Curtailment or Settlement

The amendments address the accounting treatment in cases when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments clarify that if a plan amendment, curtailment or settlement occurs during the reporting period, an entity must determine the cost of the services of the current period and the net interest in relation to the rest of the period after the plan amendment, curtailment or settlement based on the actuarial assumptions and discount rates used to reassess the net defined benefit plan liability (asset).

These amendments apply to events that occurred on or after the start of the first annual reporting period beginning on or after 1 January 2019. Early application is allowed. These amendments will apply only to future plan amendment, curtailment or settlement.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that does not use the equity method, but which, in fact, form part of the net investment in an associate or joint venture (long-term investments). It is understood that the model of expected credit losses according to IFRS 9 is applied to such long-term investments.

The amendments also explain that when applying IFRS 9, an entity does not take into account losses incurred by an associate or joint venture or loss from impairment of net investments recognized as adjustments to a net investment in an associate or joint venture arising from the application of IFRS 28 Investments in Associates and Joint Ventures.

These amendments are applied retrospectively and are effective for annual periods beginning on or after 1 January 2019. Application is allowed before this date. The amendments will have no impact on the Company's financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 10, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however is recognized only to the extent of unrelated investors' interest in the associate or joint venture.

Adoption of these improvements did not have any impact on the Company's financial statements.

2 Summary of significant accounting policies (continued)

Foreign currency. Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in euro, which is the Company's functional and the Group's presentation currency.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates at the balance sheet date. Income and expenses of foreign operations are translated to euro at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

The EUR exchange rates used in the preparation of these consolidated financial statements are as follows:

	USD	UAH	RUB	PLN
As at 30 June 2020	1.1198	29.8899	78.6812	4.4660
Average for six months ended 30 June 2020	1.1014	28.6123	76.4417	4.4144
As at 31 December 2019	1.1234	26.6091	69.3406	4.2585
As at 30 June 2019	1.1380	29.7773	71.8179	4.2520
Average for six months ended 30 June 2019	1.1296	30.4275	73.8389	4.2933

3 Critical accounting estimates and judgments

The preparation of the financial statements requires the management to make various estimations and assumptions that affect reporting values of the assets and liabilities as well as disclosure of information on contingent assets and liabilities at the statement of financial position date. Actual results might differ from the current estimations. The estimations are periodically reviewed. Should the adjustments be needed they are reported in the financial results of the period when they became aware.

Below are the main assumptions as to future events and other sources of uncertainties of estimates at the reporting dates that are of a great risk of the necessity to make significant adjustments to the carrying amount of assets and liabilities during the next reporting year:

Impairment of property, plant and equipment. Detection of impairment indications of property, plant and equipment provides for use of estimates that include, in particular, reasons, terms and amounts of the impairment. Impairment is based upon the analysis of many factors, such as: changes in current competitive conditions, expectations of an industry recovery, capital appreciation, changes in possibilities of future financing attraction, technological obsolescence, servicing suspension, current replacement cost and other changes in circumstances that indicate the impairment.

Management's estimates are required in order to determine the compensation amount for a cash generating unit. The value in use estimation includes methods based on the estimation of expected future discounted cash flows. This requires the Group to evaluate these cash flows for cash generating units and choose a grounded discount rate to calculate a present value of cash flows.

The estimations including the applied methodology may have significant effect on the fair value and impairment amount of property, plant and equipment.

Biological assets. Due to the absence of an active market, the fair value of biological assets is estimated by present valuing the net cash flows, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the statement of financial position date.

Provision for doubtful accounts receivable. Provision for doubtful debts is charged based on factual data about accounts receivable payment and the solvency analysis of the most significant debtors. In case of worsening the clients' financial position, a factual losses volume may exceed an estimated one. Additional information is disclosed in note 7.

Legal actions. The Group's management applies significant judgments during the estimation and recognition of provisions and risks of contingent liabilities associated with existing legal actions and other unsettled claims that should be settled by way of negotiations, mediation, arbitration or state interference as well as other contingent liabilities. The management's judgment is essential during the possibility of a claim settling as regards the Group or material obligations and during the determination of a possible amount of final settlement. Due to the uncertainty inherent to the estimation process, actual expenses may differ from the initial estimation of provision. These previous estimations may vary as new information becomes available, mainly, from the Group's specialists, if any, or from outside consultants, such as actuaries or lawyers. A review of these estimations may have a substantial impact on future operating results.

Seasonality of operations. The Group's sales volumes and revenue are impacted by seasonal fluctuations in demand for its products. Demand for the Group's cheese products and butter typically peaks during late autumn and winter due to increases in demand for higher-fat products during colder months.

The availability and price of raw materials required by the Group are also subject to seasonal fluctuation. As a result of the lifecycle of herds of cows and seasonal temperature changes, raw milk production in Ukraine and peaks during the summer months, typically creating a raw milk surplus and resulting in lower prices, and then falls during the autumn. In a summer the Group purchases all raw milk when there is a surplus so as to enhance its working relationship with its suppliers. The Group manages this surplus by drying milk in a summer and uses or sells it in the winter periods.

Management believes that the raw milk prices in Russia are affected by seasonality to a lesser extent than in Ukraine due to the differences in structure of raw milk supplies. The Group sources approximately 30% of its raw milk requirements in Ukraine from individual household producers, while in Russia the Group sources its raw milk primarily from the farms, which are less susceptible to seasonal variations. However, due to Russia being a net importer of dairy products, prices for such products in Russia are more dependent on the world prices for dry milk, which are also subject to cyclical and seasonal variations.

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk. During the six months ended 30 June 2020 the in-house milk production covered c.19% of milk intake in Ukraine.

4 Segment information

The management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board considers the business from both a geographic and product perspective. Geographically, management considers the performance of business in Ukraine, Russia, Poland and Netherlands. The Netherlands segment does not meet the quantitative threshold required by IFRS 8 and is not reported.

Ukraine, Russian and Poland segments are further segregated in the following main reportable segments:

- Cheese & butter - this segment is involved in production and distribution of cheese and butter products;
- Whole-milk - this segment is involved in production and distribution of whole-milk products;
- Ingredients - include production and distribution of dry milk, agricultural products, and other products, which - although contributing a relatively small amount of revenue to the Group, are monitored by the Board of Directors as well.

The Board of Directors assesses the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event.

As information on segment assets are not reported to the Board of Directors, this is not disclosed in these financial statements.

Inter-segment sales are priced along the same lines as sales to external customers, with an appropriate discount being applied to encourage use of group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior period.

The segment information by country for the six months ended 30 June is as follows:

	2020				2019			
	Russia	Ukraine	Poland	Total	Russia	Ukraine	Poland	Total
Total segment revenue	17,489	19,611	-	37,100	36,718	25,039	4,134	65,891
Inter-segment revenue	(133)	-	-	(133)	-	-	(11)	(11)
Revenue from external customers	17,356	19,611	-	36 967	36,718	25,039	4,123	65,880
EBITDA	(767)	1,033	-	266	793	157	(809)	141
EBITDA margin	-4%	-5%	-	-5%	2%	1%	-20%	0%
Depreciation and amortisation	165	2,234	-	2,399	638	2,737	765	4,140

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4 Segment information (continued)

Inter-segment revenue is related to inter-group sales of dairy goods to third party customers.

The segment information by product for the six months ended 30 June is as follows:

	2020				2019			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	11,535	15,777	9,788	37,100	19,683	31,639	14,569	65,891
Inter-segment revenue	(133)	-		(133)	-	-	(11)	(11)
Revenue from external customers	11,402	15,777	9,789	36,967	19,683	31,639	14,558	65,880
EBITDA	960	(735)	41	266	91	346	(296)	141
EBITDA margin	8%	-5%	0%	1%	0%	1%	-2%	0%
Depreciation and amortisation	932	626	841	2,399	1,589	1,151	1,400	4,140

A reconciliation of EBITDA to profit before tax for the six months ended 30 June is as follows:

	2020	2019
EBITDA	266	141
Other segments EBITDA	(156)	384
Total segments	110	525
Depreciation and amortisation	(2,399)	(4,140)
Loss from disposal and impairment of non-current assets	(4,681)	(5,496)
Finance expenses	(17,203)	(3,828)
Finance income	1,409	5,415
Investment in associates gain	28	-
Profit/(loss) before tax	(22,736)	(7,524)

5 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. During the reporting period the company had related party transactions with ultimate shareholder, key management and companies under common control.

The outstanding balances due from related parties were as follows:

<i>Entities under common control:</i>	30 June 2020	31 December 2019	30 June 2019
Trade accounts receivable	51	50	50
Other financial assets	250	-	265
Other accounts receivable	502	1,700	1,519
Total trade and other receivables	803	1,750	1,834
Trade payables	1	-	1
Other accounts payable	906	180	200
Total trade and other payables	907	180	201

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2020 paid or payable to key management for employee services is EUR 82.5 thousand (2019: EUR 85 thousand).

6 Cash and cash equivalents

Cash in bank is available for demand and earns interest at floating rates based on daily bank deposit rates.

	30 June 2020	31 December 2019	30 June 2019
Short term deposits	-	-	-
Cash in bank and cash on hand	683	2,355	2,914
Total cash and cash equivalents	683	2,355	2,914

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7 Trade and other receivables

	30 June 2020	31 December 2019	30 June 2019
Trade accounts receivable	16,984	15,311	12,931
Other financial assets	9,684	11,841	11,415
Allowance for doubtful debts	(11,090)	(10,918)	(10,890)
Total financial assets within trade and other receivables	15 578	16,234	13,456
Advances issued	2,727	1,950	3,577
Other receivables	36,305	36,487	22,966
Allowance for doubtful debts	(739)	(681)	(778)
Total trade and other accounts receivable	53,871	53,990	39,221

The carrying amounts of the Group's trade and other receivables approximate their fair value. Maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

8 Inventories

	30 June 2019	31 December 2019	30 June 2019
Raw and other materials	2,656	4,121	4,211
Finished goods and work in progress	6,095	7,208	5,230
Agriculture produce	183	367	162
Total inventories	8,934	11,696	9,603

9 Other taxes receivable

	30 June 2020	31 December 2019	30 June 2019
VAT recoverable	9,792	6,796	7,157
Payroll related taxes	90	106	106
Other prepaid taxes	23	(2)	72
Total other taxes receivable	9,905	6,900	7,335

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10 Goodwill

	2020	2019
Balance at 1 January	1,550	1,300
Foreign currency translation	(220)	160
Balance at 30 June	1,330	1,460

Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to foreign subsidiaries, it is translated each year as part of the translation of the foreign operation.

11 Property, plant and equipment and intangible assets

During six months ended 30 June 2020 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 145 thousand (2019: EUR 554 thousand), which comprised mainly modernisation of milk processing capacities.

For the additional details please refer the section *Material Factors and Events after the Reporting Date*.

12 Biological assets

The Group is engaged in agricultural activities mainly for the following purposes:

- Development of livestock in order to create own base for raw milk supply.
- Grow of maize, wheat and barley with the main purpose to sale to the external customers.

Non-current cattle are represented by dairy livestock with an average yearly lactation period of nine months. Current cattle comprise immature cattle and cattle intended for sale. Other biological assets mainly represent pigs and horses.

To estimate the fair value of biological assets, a valuation, which conforms to International Valuation Standards, was performed by the Group, fair value is estimated as the present value of the net cash flows expected to be generated from biological assets discounted at a current market discount rate.

As at 30 June 2020 and 2019 biological assets comprise the following groups:

	30 June 2020		30 June 2019	
	Units	Amount	Units	Amount
Current biological assets of animal breeding				
Cattle	2,091	997	2,439	1,235
Other livestock	-	-	-	-
Total biological assets of animal breeding	2,091	997	2,439	1,235
Current biological assets of plant growing				
Other	-	2,314	-	1,194
Total biological assets of plant growing	-	2,314	-	1,194
Total current biological assets	-	3,311	-	2,429
Non-current biological assets				
Cattle	1,829	2,388	1,899	2,218
Other livestock	-	-	-	-
Total non-current biological assets	1,829	2,388	1,899	2,218

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13 Trade and other payables

	<u>30 June 2020</u>	<u>31 December 2019</u>	<u>30 June 2019</u>
Trade payables	24,188	25,081	20,165
Accounts payable for fixed assets	12	16	27
Interest payable	29,103	26,718	23,313
Other financial payables	5	81	81
Total financial liabilities within trade and other payable	<u>53,308</u>	<u>51,896</u>	<u>43,586</u>
Wages and salaries payable	2,375	2,469	2,127
Advances received	11,614	11,066	8,451
Other accounts payable	20,874	32,203	24,825
Accruals for employees' unused vacations	787	950	1,436
Total trade and other payables	<u>88,858</u>	<u>98,584</u>	<u>80,425</u>

Financial liabilities are normally settled within 60-days period.

The fair values of trade and other accounts payable approximate their carrying amounts.

14 Other taxes payable

	<u>30 June 2020</u>	<u>31 December 2019</u>	<u>30 June 2019</u>
VAT payable	1,921	1,742	580
Payroll related taxes	2,306	3,904	3,593
Other taxes payable	882	3,141	2,455
Total other taxes payable	<u>5,109</u>	<u>8,787</u>	<u>6,628</u>

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15 Loans and borrowings

	<u>30 June 2020</u>	<u>31 December 2019</u>	<u>30 June 2019</u>
Current			
Interest bearing loans due to banks	73,332	75,593	78,332
Loans from non-financial institutions	-	-	101
Bank overdrafts	14	-	13
Finance leases	211	1,615	1,526
Total current borrowings	<u>73,557</u>	<u>77,208</u>	<u>79,972</u>
Non-current			
Interest bearing loans due to banks	1,531	1,850	2,139
Finance leases	-	8	102
Total non-current borrowings	<u>1,531</u>	<u>1,858</u>	<u>2,241</u>
Total borrowings	<u>75,088</u>	<u>79,066</u>	<u>82,213</u>

Movement in loans and borrowings during the six months ended 30 June was as follows:

	<u>2020</u>	<u>2019</u>
Balance at 1 January	79,066	85,955
Obtained new loans and borrowings	-	197
Repaid loans and borrowings	(125)	(6,025)
Discounting of borrowings	-	46
Outcome of subsidiaries	(1,861)	-
Foreign exchange (gain)/loss	(1,992)	2,040
Balance at 30 June	75,088	82,213

As at 30 June 2020 the Group has not met requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio.

16 Share capital

Share capital as at 30 June 2020 and 2019 is as follows:

	<u>2020</u>		<u>2019</u>	
	Number of shares	EUR 000	Number of shares	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
<i>Ordinary shares of 10c each</i>				
At 1 January	31,250,000	3,125	31,250,000	3,125
At 30 June	31,250,000	3,125	31,250,000	3,125

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17 Revenue

Sales by product during the six months ended 30 June was as follows:

	<u>2020</u>	<u>2019</u>
Cheese & Butter	11,402	19,683
Whole-milk products	15,777	31,639
Ingredients	9,788	14,558
Total revenue	<u>36,967</u>	<u>65,880</u>

Regional sales during the six months ended 30 June was as follows:

	<u>2020</u>	<u>2019</u>
Russia	17,490	36,718
Ukraine	19,141	24,850
Poland	-	4,133
Other	336	179
Total revenue	<u>36,967</u>	<u>65,880</u>

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18 Cost of sales

	2020	2019
Raw and other materials	19,270	40,767
Wages and salaries	2,330	3,900
Depreciation	2,004	3,285
Electricity	1,037	2,057
Transportation costs	1,445	1,683
Gas	829	1,604
Changes in finished goods and work in progress	302	1,133
Social insurance contributions	501	832
Repairs of property, plant and equipment	264	442
Water	102	109
Other	3,040	1,500
Total cost of sales	31,124	57,312

19 Selling and distribution expenses

	2020	2019
Transportation costs	936	2,237
Wages and salaries	856	1,474
Social insurance contributions	181	349
Marketing and advertising	305	295
Security and other services	272	184
Rental costs	26	163
Depreciation and amortisation	25	82
Licence fees	13	11
Other	399	398
Total selling expenses	3,013	5,193

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20 Administrative expenses

	<u>2020</u>	<u>2019</u>
Wages and salaries	2,102	2,644
Taxes and other charges	429	700
Social insurance contributions	267	500
Consulting fees	330	477
Depreciation and amortisation	262	351
Security and other services	174	246
Rental costs	32	184
Transportation costs	108	173
Repairs and maintenance	47	138
Bank charges	39	134
Representative charges	8	125
Other utilities	81	82
Communication	46	63
Property insurance	1	16
Office supplies	8	10
Other	347	216
Total administrative expenses	<u>4,281</u>	<u>6,059</u>

21 Other income/(expenses), net

	<u>2020</u>	<u>2019</u>
Operational foreign exchange results, net	(246)	85
Change in provision and write off of VAT receivable	6	65
Gain/(loss) from disposal and write off of inventories	54	51
Gain from write off of accounts payable	(1)	35
Rental income	223	7
Government grants recognised as income	-	-
Change in provision and write off of trade and other accounts receivable	(108)	(68)
Penalties	(265)	(300)
Depreciation and amortisation	(108)	(423)
Loss from revaluation of non-current assets	(1,473)	(734)
Gain/(loss) from disposal of non-current assets	(3,238)	(4,760)
Other income/(expenses), net	(362)	(386)
Total other (expenses)/income, net	<u>(5,518)</u>	<u>(6,428)</u>

22 Finance income

	<u>2020</u>	<u>2019</u>
Finance foreign exchange gain	1,289	5,301
Other fin income	103	114
Bank deposits	17	-
Total finance income	<u>1,409</u>	<u>5,415</u>

23 Finance expenses

	<u>2020</u>	<u>2019</u>
Bank borrowings	3,480	3,113
Other borrowings	-	378
Discounting of loans	-	46
Finance foreign exchange loss	13,033	274
Finance leases	-	8
Other finance expense	690	9
Total finance expenses	<u>17,203</u>	<u>3,828</u>

24 Income tax

	<u>2020</u>	<u>2019</u>
Current income tax expense	(25)	(1,550)
Deferred income tax benefit	-	1,798
Total income tax expense	<u>(25)</u>	<u>248</u>

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2020 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2019: 18%), Russian profit tax was levied at the rate of 20% (2019: 20%), Poland profit tax was levied at the rate of 19% (2019: 19%). In 2019 the tax rate for Panama operations was 0% (2019: 0%) on worldwide income.

25 Contingent and deferred liabilities

Litigation

The Group from time to time participates in legal proceedings. However, none of the legal proceedings either separately or in aggregate had significant negative material effect on the Group.

Taxation

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretations by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the power to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation and it is possible that transactions and activities that have not been challenged in the past may be disputed.

Insurance policies

The Group applies reasonable approach to risk management and assets safeguarding and mitigate key risks with insurance services.

One of significant insurance contract covers Directors and Officers liability insurance for reimbursement for losses or advancement of defence costs in the event an insured suffers losses as a result of a legal

action brought for alleged wrongful acts by Directors and Officers. The insurance contract signed with Allianz Global Corporate & Specialty SE with limit liability of EUR 25 million.

The Company also engaged in the other types of insurance contracts, including property, cargo and civil liability insurance.

The choice of the insurance services providers is usually made based at their high business reputation and rates.

26 Capital management policy

Main objectives of the Group's capital management policy are as follows: management of accounts receivable and payable, raw materials and finished goods stocks, as well as healthy capital structure.

The Group has external requirements to the capital in respect of Loan facility to the Syndicate and other loans received by the Company.

According to the most significant Facilities agreement with the Creditors the following covenants are applied:

- Tangible net worth should not at any time be less than EUR 105,000 thousand;
- the ratio of borrowing to EBITDA in respect of any relevant period will not exceed 3.5 to 1;
- the ratio of EBITDA to interest expenses in respect of any relevant period will not be less than 3.25 to 1.

Borrowing, EBITDA, interest expenses and tangible net worth shall be calculated and interpreted on a consolidation basis in accordance with the IFRS and shall be expressed in EUR.

27 Subsequent events

Restructuring of the Group's indebtedness

In March 2019 Milkiland has published the official information regarding the assignment of the indebtedness in the sum of USD 29.29 million under Facility Agreement to a New Lender, namely Swestal Holding Ltd.

The New Lender also undertakes the Existing Lender Commitment comprising as of the date of Assignment agreement USD 29,290,000 of principal under tranche A and all of the Existing Lenders rights, interest and liabilities under the Facility agreement and the related Finance Documents under this agreement. This amount corresponds to the half of the total sum of the Company's principle indebtedness under the Facility Agreement.

The Group's management plans to continue the negotiations on the restructuring of the indebtedness with the New Lender and hopes to achieve the progress on this issue in the near future. According to the Assignment agreement, the Existing Lender assigns absolutely to the New Lender all the rights of the Existing Lender under the Facility Agreement.