Report of the Board of Directors on operations in the first half of 2016

Contents

Overview of Operations in H1 2016 and Outlook for the Year 2016

Strategy and Operations
The stagnation of the national economies of Russia and Ukraine, the Group's key markets, together with the declining foreign trade of those countries, formed the background for Milkiland's operations in H1 2016.

In particular, in the reporting period Ukraine posted the close-to-zero real GDP growth, which looked even positive after the full scale economic crisis of end of 2014-2015, when the GDP decline stood at double-digit territory. Ukrainian export in H1 2016 contracted by more than 15% on y-o-y basis, while import declined by c. 9% in comparison with H1 2015.

GDP of Russia in Q1 2016 decreased by 1.2%, followed by 0.6% contraction in Q2 2016 on y-o-y basis. Russian foreign trade turnover decreased by 13.4% in H1 2016 in comparison with H1 2015, mainly on the back of c. 19% contraction of export.

These trends led to further deterioration of the real disposable income of population in those countries, with its deeper decline posted in Ukraine. While the real disposable income of Russians contracted by 4.5% in H1 2016 on y-o-y basis, Ukrainians lost almost 15% of income in their pockets.

Importantly, Russian and Ukrainian currencies still reported significant devaluation against euro in H1 2016 on average in comparison with the same period of 2015. In particular, the Ukrainian hryvnia in the reporting period was on average by 19.4% weaker against EUR than in the same period of the last year, while Russian rouble was weaker against European currency by c. 22%.

On a positive side, both economies posted single-digit inflation rates, in particular, CPI in Russia in H1 2016 stood at 7.2%, in Ukraine – at 4.9%.

As an outcome, in H1 2016, all dairy producers of Ukraine and Russia, including Milkiland, conducted their business in the situation of declining demand for their products in the domestic dairy markets.

The continuing restrictions of the Russian authorities against Ukrainian dairy export, as well as food export from the EU, was the another important factor, which significantly influenced the market situation in the reporting period. Despite those restrictions supported some import substitution opportunities, including for the Group's Russian subsidiaries, they also held the Ukrainian arm of Milkiland's business out from the attractive Russian dairy export market.

To follow the opportunities in the Russian dairy market, Milkiland continued its efforts aimed at the localization of cheese production in this country. As the result, in H1 2016 Rylsk Syrodel division of LLC "Kursk milk" managed to increase of cheese sales by 1.5 times to over 3 thousand tons on y-o-y basis. The installation of the new cheese production line led to increase of its capacity by c.18%.

New factors raised in the Ukrainian dairy market after full implementation of FTZ agreement with EU since the beginning of current year. Due to relatively low purchasing power of Ukrainians, the import of EU-made dairy to Ukraine remained limited, but triggered the competition, primarily among the local players.

In order to catch the opportunities in line with the implementation of FTZ with the EU, Milkiland started an export to Ukraine of the high value-added dairy goods, including cheese and dry-milk products, produced by Ostrowia cheese plant, the Polish subsidiary of the Group. Three Ukrainian production subsidiaries of the Group were also cleared for export of dairy goods to EU and going to start the export within the quotas agreed between European Union and Ukraine.

In line with the strategy of searching the opportunities of entering to the new markets, Milkiland in the reporting period signed a contract and started supplies of the dry milk products to China. These supplies became a first step to developing a distribution network in the developing dairy market of this country.

In H1 2016 the group continued its vertical integration efforts by supporting of in-house milk production by Milkiland-Agro subsidiary. In particular, on the basis of practically stable average milking cows headcount the milk yield per head was improved by 11%, which led to the same growth in the raw milk output.

The Group's segment revenues in the reporting period reflected the influence of the above mentioned factors, when sales in volume terms were suppressed by the limited access to export markets and low purchasing power of population in Ukraine and seasonal factors in Russia. Due to weaker demand for dairy goods in both countries the Group was also limited in their ability to increase a sale prices for finished goods.

In particular, Milkiland posted c. 24% decline in revenues in H1 2016 in comparison with the same period of 2015 in whole-milk product segment, driven by c. 15% decrease of the sales volumes on the back of lower sales volumes in Russia and Ukraine.

Revenues in cheese&butter segment in the first six months of the year dropped c.22% as the result of the influence of several opposite factors. In particular, practical elimination of cheese export sales to Russia from Ukraine was partly compensated by 1.5 times growth of cheese volumes sales of Russian made cheese, 27% lower cheese sales in volume terms in the domestic market of Ukraine were combined with c. 20% growth of average sales price for this product.

Negative trends in the global dairy market, in particular low prices for dry milk products, which still took place in the reporting period contributed to a 31% drop in revenues in the Ingredients segment. For more information on the above changes, refer to sections *Dairy Markets,* and *Milkiland Financial Performance and Financial Position*.

On the cost side, raw materials costs declined by 21% in H1 2016, mainly due to lower milk processing volumes. This factor offset the growth of raw milk prices both in Ukraine and Russia (by 19.3% and 2.6% on average in H1 2016 on y-o-y basis, in national currencies terms respectively). At the same time, the situation with raw milk prices in Poland in the reporting period, where they declined by c. 9% year-on-year, was more favorable to the Group.

Russia remains the best performing geographical segment of the Group's business in H1 2016 thanks, which generated c.65% of the Group's revenue and c.73% of EBITDA. At the same time, Russian business in H1 2016 decelerated its sales by c.19% to EUR 48.1 million, mainly because of the decreased sales of Ostankino dairy combine in key accounts channel and seasonal factors, while its EBITDA declined by c.40%.

Ukrainian business EBITDA in H1 2016 remained positive (c. EUR 1.0 million) in comparison with EUR 2.6 million in the same period of 2015. Contrary to H1 2015, Polish segment EBITDA moved to the positive territory (EUR 0.064 million vs negative EUR 0.627 million in the same period of 2015). The reasons behind this were the increase of capacity utilization of Ostrowia cheese plant due to realization of the tolling contract with German producer together with better price situation with dry milk products, especially by the end of the reporting period.

As the result of the above mentioned segment dynamics, macroeconomic and market factors, the Group's key financial results in H1 2016 were as follows. The Group's revenue decreased c. 24% y-o-y to c. EUR 74 million. Mainly under the pressure of this revenue decline, the Group's EBITDA in H1 2016 fell by c. 47% to EUR 3.4 million.

Dairy Markets
Russian milk production in 2016 is forecasted to increase slightly 2% y-o-y with the herd expected to shrink by 3% and milk output slated to decline by 1% y-o-y. Due to reduced supplies of domestic milk, Russia has been importing increasing amounts of vegetable fat substitutes such as palm oil and fluid milk. Imports of palm oil which are largely used in the production of cheese along with other foodstuffs have grown by 57% in the period 2011 through 2015. In addition, imports of milk have grown. Belarus, which has an increasingly competitive dairy sector, has become a major supplier and accounts for nearly all the milk imported by Russia.

Russia has extended an import ban until December 31, 2017 for a wide range of foods originating from Western nations, primarily the EU, United States, and Australia. The immediate effect of this ban has been to remove foreign competition to the benefit of domestic producers. Russia decreed in a 2010 Food Security Doctrine a self-sufficiency goal of 90% in milk and dairy products. In H1 2016, raw milk production in Russia reached 2.8 million tons, up 1.4% y-o-y while milking cows herd declined 2.5 % y-o-y to 3.3 million heads as of July 1, 2016. The average producers price for raw milk in Russia grew by moderate 2.6% y-o-y in rouble terms in H1 2016 implying a significant decrease in euro terms (rouble devalued against euro on average by 21.9% y-o-y in H1 2016).

Ukraine produced 5.1 million tons of raw milk in H1 2016, down 1.3% y-o-y while cows herd declined 3.5% y-o-y to 2.2 million heads as of July 1, 2016. The average producers price for raw milk grew c. 20% y-o-y in hryvnia terms over the period, implying flat y-o-y growth in euro terms (Ukrainian hryvnia devalued 19.4% to euro on average in H1 2016).

While Russia's cheese output for 2016 is expected to hold steady over last year, there is concern over the increasing use of palm oil as a fat substitute in the cheese vats. It is estimated that dairy processors use approximately 25-30% of palm oil imports in the production of dairy products with a large portion used to produce cheese. In 2015, the National Union of Milk Producers determined that there was a gap of 9-10% between the milk fat supplied and the declared milk fat content of dairy products produced. Although Russia's cheese output has grown by an annual average of 4% since 2011 through 2015, it remains heavily dependent on imports primarily from Belarus. For 2016, Russia's imports of cheese are expected to remain relative strong, reporting estimated growth of 10% y-o-y. In H1 2016, Russia produced 294,000 tons of cheese, up 3.9% y-o-y while cheese imports grew c.26% y-o-y with Belarus being major contractor (87% of total imports volume).

Ukraine's cheese production is expected to decrease by c. 10% y-o-y, to 145,000 tons in 2016, according to the Union of Dairy Producers of Ukraine data. In H1 2016, Ukraine cheese output contracted 10.4% y-o-y, to 75,880 tons on the back of increasing completion from EU cheese coming to Ukraine under FTZ agreements. Cheese exports from Ukraine fell c.9% y-o-y in H1 2016 in value terms. Cheese imports to Ukraine grew c.22% y-o-y in H1 2016 reflecting more cheese coming from EU under FTZ agreements.

Whole milk products output volume in Ukraine declined 6.5% y-o-y in H1 2016 on the back of decreased demand on shorter disposable income, causing potential milk oversupply and further herd reduction in the country. In Russia, the whole milk products output grew c.3% y-o-y in H1 2016 which also implies stagnating demand for this product group.

Global export prices of skimmed milk powder (SMP) and whole milk powder (WMP) have been rising recently suggesting that global milk powder markets may be in the early stages of a recovery. In the case of WMP, prices have demonstrated steady but modest gains since early this year, increasing by nearly 12% since mid-February to early July 2016. This appears likely driven by lower exportable supplies and an uptick in demand in many Asian countries, particularly China. Chinese imports of WMP in 5M16 are up nearly 20% y-o-y.

For SMP, the global prices were sluggish in 5M16 but have recently climbed up 11% since early May to July despite ample stocks of exportable supplies in the United States and substantial intervention stocks in the EU. These overhanging volumes will likely temper any significant recovery in SMP prices. Nevertheless, these recent surges may reflect growing uncertainty regarding the availability of future supplies as milk production in New Zealand, Australia, and Argentina are expected to decline this year. Despite registering strong gains early in the year, the pace of EU milk output is expected to decline sharply. It is apparent that low milk prices and corresponding low margins are taking a toll on dairy farmers worldwide. These recent increases in milk powder prices may be the first sign of a realignment of markets that are slowly coming into balance as the milk over-supply situation is corrected. Nevertheless, while prices may trend upwards for the balance of the year, this progress will probably be unsteady and will likely be hampered by the substantial stocks of SMP. Any significant recovery appears unlikely until well into 2017.

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2016 and 2015 in thousands Euro.

Selected financial data

	6 m 2016	6 m 2015
I. Revenues	73,911	97,657
II. EBITDA	3,408	6,374
III. Operating profit	(1,321)	370
IV. Profit (loss) before tax	(14,542)	(24,616)
V. Net profit (loss)	(15,114)	(24,096)
VI. Cash flows provided by (used in) operating activities	1,446	4,535
VII. Cash flows used in investing activities	(788)	(1,294)
VIII. Cash flows (used in) provided by financing activities	(479)	(2,916)
IX. Total net cash flow	179	325
X. Total assets	186,085	222,477
XI. Current liabilities	141,831	135,553
XII. Non-current liabilities	17,784	21,206
XIII. Share capital	3,125	3,125
XIV. Total equity	23,345	62,593
XV. Weighted average number of shares	31,250,000	31,250,000
XVI. Profit (loss) per ordinary share, EUR cents	(48.06)	(76.38)

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2016	6 m 2015
Revenue	73,911	97,657
Change in fair value of biological assets	(230)	277
Cost of sales	(62,890)	(81,863)
Gross profit	**10,791**	**16,071**
Operating income (expense), net	(12,112)	(15,701)
Operating profit	**(1,321)**	**370**
Net finance expense and other non-operating income (expense)	(13,221)	(24,986)
Profit (loss) before tax	**(14,542)**	**(24,616)**
Income tax (expense) benefit	(572)	520
Net profit (loss)	**(15,114)**	**(24,096)**
Other comprehensive income (loss)	5,643	(4,779)
Total comprehensive income	**(9,471)**	**(28,875)**
Net profit (loss) attributable to equity holders of the parent company	**(15,020)**	**(23,870)**
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR)	**(48.06)**	**(76.38)**

Revenue

On the back of the Ukrainian hryvnia and Russian rouble devaluation against euro in the first half of 2016, lowering disposable income in both countries and as a result lower demand for dairy and limited exports, the Group's EUR-denominated revenue decreased c. 24% y-o-y to EUR 73.9 million. Due to weaker demand for dairy goods in key operating markets the Group was also limited in their ability to increase a sale prices for finished goods.

Slow economic recovery both in Russia and Ukraine negatively affected the Group's cheese&butter segment performance in the first six months of the year. However, cheese volume dynamics in Russia reported the biggest growth among other segments of the Group, up 55% y-o-y thanks to doubled cheese production at Russian Rylsk subsidiary in H1 2016. On the contrary, Ukraine reported a 27% y-o-y decline in cheese sales volumes for the period.

The Group's overall cheese sales volumes declined 7% y-o-y in H1 2016. Cheese exports to countries other than Russia fell 50% y-o-y. The devaluation of the Ukrainian hryvnia and Russian rouble over the reported period neglected the rise in the Group's average prices for this segment. As a result, despite a considerable rise in the cheese sales in Russia, segment revenue dropped 22% from EUR 30.8 million to EUR 24.1 million.

WMP segment still being the largest contributor to the Group's revenues demonstrated a 24% drop in value terms, fueled mostly by the devaluation of the Group's key operational currencies. WMP sales volumes declined 15% y-o-y due to drop in volumes sales in Russia (-18% y-o-y) driven by strategic changes in product mix to find new opportunities for import substitution.

Negative trends in the global dairy market contributed to a 31% drop in the Ingredients segment although showing signs of recovery for H2 2016. For more information on the above changes, please refer to section *Overview of Operations in H1 2016 and Outlook for the Year 2016.*

Breakdown of the Group's consolidated revenue by product in H1 2016 and H1 2015

	2016		2015		2016 vs. 2015	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	24,093	33%	30,843	32%	-6,750	1%
Whole milk products	42,436	57%	56,035	57%	-13,599	0%
Ingredients and other	7,436	10%	10,779	11%	-3,343	-1%
Total	**97,657**	**100%**	**149,775**	**100%**	**(52,118)**	**-35%**

In the total revenue, cheese and butter sales accounted for 33%, whole milk products for 57% (32% and 57% respectively in the first half of 2015).

Cost of sales and Gross profit

Cost of sales declined by 23% to EUR 63 million. The devaluation of the Ukrainian hryvnia and Russian rouble contributed to a drop in the cost of sales, despite a rise in the raw milk prices in Russia (+3% y-o-y) and Ukraine (by 19%).

Despite growing raw milk prices, such devaluation led to a 21% y-o-y decrease in the cost of raw and other materials, mainly milk, in EUR terms. The share of raw and other materials in the total consolidated revenue increased from 80% in H1 2015 to 82% in H1 2016. For more information on the raw milk prices and supply, refer to section *Dairy Markets*.

Due to the same currency devaluation, labor costs decreased by 10%. Decrease in transportation costs (42%) was due to the devaluation of the Ukrainian hryvnia and a reduction in processing volumes by the Group's largest production subsidiary, Milkiland Ukraine.

Breakdown of the Group's cost of sales in H1 2016-2015, '000 EUR and %

	2016		2015	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	51,361	82%	65,108	80%
Wages and salaries	3,628	6%	4,045	5%
Depreciation	4,786	8%	5,126	6%
Transportation costs	1,181	2%	2,046	2%
Gas	1,872	3%	2,621	3%
Other	62	0%	2,917	4%
Total	**62,890**	**100%**	**81,863**	**100%**

The Group's gross profit decreased by 33% to EUR 11 million due to a drop in revenue, with the gross margin of 14.6% against 16.5% in the first half of 2015.

Profit from operations and EBITDA

A pressure put by lower EUR-denominated revenue and the higher share of raw milk costs in the total revenue on the gross margin in the first half of 2016 resulted in a decrease in the Group's EBITDA by 47% to EUR 3.4 million, EBITDA margin constituted 6.5% in H1 2015 vs. 9.0% in H1 2014.

The Group's Russian business EBITDA declined by c.40% y-o-y due to the factors listed above. Ukrainian business EBITDA in H1 2016 remained positive (c. EUR 1.0 million) in comparison with EUR 2.6 million in the same period of 2015. Contrary to H1 2015, Polish segment EBITDA moved to the positive territory (EUR 0.064 million vs negative EUR 0.627 million in the same period of 2015). The reasons behind this were the increase of capacity utilization of Ostrowia cheese plant due to realization of the tolling contract with German producer together with better price situation with dry milk products, especially by the end of the reporting period.

Selling and distribution expenses and administrative expenses dropped 22% and 12% respectively on the back of operating currency devaluation.

Transportation expenses as part of the selling and distribution expenses decreased by 16% due to Russian rouble devaluation. A 44% drop in the marketing and advertising costs was due declined sales volumes as well as depressed by currency devaluation.

In administrative expenses, labor costs dropped 12% y-o-y due to the devaluation reasons.

Other operation income net was EUR 0.7 million in H1 2016 thanks to increased government grants recognized as income, in comparison with an operation expense of EUR 0.1 million in H1 2015.

Profit before tax and Net profit

In the first half of 2016, financial expense related to bank borrowings declined 4% thanks to currency translation effects. The devaluation of Ukrainian hryvnia and Russian rouble against euro and US dollar resulted in a non-cash foreign exchange loss of EUR 7.3 million (compared to EUR 19.8 million in H1 2015).

As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 14.5 million. Net loss for the first half of 2016 accounted for EUR 15.1 million.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2016	December 31, 2015	June 30, 2015
Cash and cash equivalents	1,120	907	10,154
Trade and other receivables	22,316	19,506	51,784
Inventories	13,530	12,193	18,055
Other current assets	8,794	7,985	11,480
Total current assets	**45,760**	**40,591**	**91,473**
PPE	112,766	117,787	119,420
Deferred income tax assets	2,966	3,159	5,785
Other non-current assets	5,552	4,948	5,799
Total non-current assets	**140,325**	**145,959**	**131,004**
Total assets	**186,085**	**186,550**	**222,477**
Trade and other payables	35,035	24,659	32,140
Short-term loans and borrowings	104,608	103,410	100,639
Other current liabilities	2,188	2,469	2,774
Total current liabilities	**141,831**	**130,538**	**135,553**
Loans and borrowings	3,045	4,061	4,872
Deferred income tax liability	14,537	14,706	16,044
Other non-current liabilities	202	1,304	290
Total non-current liabilities	**17,784**	**20,071**	**21,206**
Total liabilities	**159,615**	**150,609**	**156,759**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	82,845	79,902	64,551
Retained earnings	(60,651)	(48,377)	(3,676)
Total equity attributable to equity holders of the parent company	**25,319**	**34,650**	**64,000**
Non-controlling interests	1,151	1,291	1,718
Total equity	**26,470**	**35,941**	**65,718**
Total liabilities and equity	**186,085**	**186,550**	**222,477**

Assets

Due to the Ukrainian hryvnia and Russian rouble devaluation in the first half of 2016, The Group's EUR-denominated assets decreased. While current assets increased (EUR 40.6 million as of December 31, 2015 to EUR 45.8 million as of June 30, 2016), non-current assets decreased by 4% resulting in flat total assets.

A y-o-y decrease in other taxes receivable by 27% represent a decrease in VAT recoverable due to lower exports from Ukraine, however this figure was stable compared to the year-end in 2015.

Trade and other receivables grew by 15% since the beginning of year with trade accounts receivable 6% lower but other receivables 39% higher than on December 31, 2015.

Since most of the Group's production assets are located in Ukraine and Russia, UAH and RUB devaluation resulted in a 4% decrease in PPE.

Liabilities and equity

Total liabilities increased by 6% resulting from a 9% growth in current liabilities. Non-current liabilities decreased by 11%. Long-term borrowings fell 25% to EUR 3.0 million. The Group's short-term loan portfolio grew 1% as a result of foreign exchange differences. During the first half of 2016, the Group repaid EUR 14.4 million and attracted EUR 13.9 million of loans.

As a result of the above movements, during the first six months of 2016 the net debt of the Group grew 4% and stood at EUR 106.5 million as of June 30, 2016 (EUR 106.6 million as of December 31, 2015). Total Debt Ratio constituted 0.58 vs. 0.58 on June 30, 2016 and December 31, 2015.

The Group's total equity decreased by 26% to EUR 26.5 million on the back of a retained loss due to FX loss. Net debt/equity ratio was 4.02 as of June 30, 2016 vs. 2.96 as of December 31, 2015.

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

Admission to EU dairy market of the Group's subsidiaries

In a view of Free Trade Zone agreement between Ukraine and EU came into the force on January, 1, 2016, Directorate Generale SANCO of European Commission published a list of Ukrainian dairy facilities that have passed relevant audits and were cleared to export to EU starting from 10 January 2016.

Three production facilities controlled by two subsidiaries of Milkiland Group, namely, Romny dairy combine and Mena cheese plant, were included into this list.

Export restrictions

After the implementation of Free Trade Zone agreement between Ukraine and EU from January, 1, 2016, Russian Government starting with the same date exited from the Free Trade agreement with Ukraine and implemented a ban on import of Ukrainian food staff, including dairy products.

These limitations fully closed the Russian market for export of Ukrainian made cheese by the Group's subsidiary Milkiland Ukraine in 2016.

Financing arrangements

Restructuring of the Loan Facility by a Syndicate of international Banks

Since September, 2014, Milkiland has been continuing the negotiations with a syndicate of international banks to sign a Loan Restructuring Agreement with the banks representing the syndicate, namely, UniCredit Bank Austria AG and AO Raiffeisenbank.

The total sum of the Group's indebtedness to syndicate as of 30 June 2016 stood at USD 58.6 million, including an overdue amount of USD 58.6 million in respect of a Syndicate of international Banks loan.

The Group expects to finish the negotiations and sign the Loan Restructuring agreement in 2016.

Repayment of the facilities under Loan agreement with Pekao Bank

Pekao bank in Poland is continuing the legal proceedings under the loan agreement with Milkiland EU claiming the collection from the debtor of the indebtedness with a value of c. EUR 2.5 million.

Within the proceedings the Bank is enforcing a formal control under pledged assets of Ostrowia cheese plant, including some production equipment, with further selling them through auction to Milkiland and/or third parties to repay the indebtedness of the Group.

Milkiland is also repaying the debt together with accrued penalties to the Bank.

The total sum of the repayment to Pekao bank by the above mentioned means in H1 2016 amounted the equivalent of EUR 0.786 million (c.30% of the total indebtedness).

Despite the described enforcement by Pekao bank, until this moment there has been no impact on Milkiland's ability to continue the usual production activities in Ostrowia cheese making plant. The equipment, which was sold through the auctions, is not used in the main production chains of the plant.

Changes in the Board of Directors

The Annual General Meeting of Shareholders of the Company held on June 17, 2016, *inter alia,* decided to:

(a) Re-appoint Mr. Oleg Rozhko as non-executive director of the Board of Directors, Chairman of the Board as of the date of the General Meeting, for another one year period ending at the close of the annual general meeting of shareholders to be held in 2017. The remuneration of Mr. O. Rozhko shall be in accordance with the remuneration policy of the Company.

(b) Re-appoint Mr. Willem Scato van Walt Meijer as non-executive director of the Board of Directors, Head of Audit Committee as of the date of the General Meeting, for another one year period ending at the close of the annual general meeting of shareholders to be held in 2017. The remuneration of Mr. Willem Scato van Walt Meijer shall be in accordance with the remuneration policy of the Company.

(c) Re-appoint Mr. Vyacheslav Rekov as non-executive director of the Board of Directors, member of Audit Committee as of the date of the General Meeting, for the period ending at the close of the annual general meeting of shareholders to be held in 2017 with the remuneration in accordance with the remuneration policy of the Company.
(d) Re-appoint Mr. Vitaliy Strukov as non-executive director of the Board of Directors, as of the date of the General Meeting, for the period ending at the close of the annual general meeting of shareholders to be held in 2017 with the remuneration in accordance with the remuneration policy of the Company.
(e) Re-appoint Mr. George Logush as non-executive director of the Board of Directors, as of the date of the General Meeting, for the period ending at the close of the annual general meeting of shareholders to be held in 2017 with the remuneration in accordance with the remuneration policy of the Company.

Material Factors and Events after the Reporting Date

Start of the export to People's Republic of China

In July 2016, Milkiland Ukraine with the support of Milkiland Intermarket, both the subsidiaries of the Group, has concluded first contract and started supplying dry milk products produced by the Group's Ukrainian facilities to the consumer in People's Republic of China.

Previously, five production subsidiaries of Milkiland Ukraine, including Romny dairy combine and Mena cheese plant, passed relevant examinations and were cleared for export to China of cheese and different types of dry milk products by Certification and Accreditation Administration of the PRC.

The Group considers the implementation of this contract as a first step to development of the distribution network in the promising and developing Chinese dairy market.

Restructuring of the credit facilities of Credit Agricole Bank

On 4 July 2016, PJSC Credit Agricole Bank signed the Amendment agreement to the Loan Facility Agreement with DE "Milkiland-Ukraine" and 3 agri-subsidiaries of the Group, namely, ALLC "Nadiya", LLC "Uspikh-Mena", PJSC "Iskra" on restructuring a debt obligations in the total amount of USD 14.456 million (EUR 13.1 million).

According to the Amendment agreement, the repayment term is extended until 30 June, 2019, lowered interest rates were applied to the borrower's indebtedness.

The Loan Facility is secured by the pledge of the real estate of agri-subsidiaries of the Group, mortgage of the production equipment, sureties from several subsidiaries of the Group and guarantee of Milkiland N.V.

Strategic Plans and Initiatives for H2 2016

The Group's management plan to further implement in the second half of 2016 the strategic plans and initiatives aimed at the capitalization on the international model of the Group's business, including seeking new markets for the Group, strengthening Milkiland's positions in the key markets of Ukraine and Russia, improvement of the efficiency of its business. It includes, *inter alia,* the following measures:

Finance:

- Continue the negotiations with the creditors of the Group, including negotiation with the creditors under Syndicated Loan Facility, namely, UniCredit Bank Austria AG and AO Raiffeisenbank, in order to agree a scheme of the restructuring of debt under Syndicated Loan Facility Agreement provided by these banks in 2011.
- Conduct timely negotiations with Russian, Ukrainian, Polish banks aimed at the meeting the working capital needs of the Group's business.

Production:

- Achieve 100% capacity utilization of Syrodel cheese making plant in Rylsk in order to support the position of the Group in cheese segment of Russian dairy market and partly offset the decline of export of this product from Ukraine and Poland.
- Further optimize a product portfolio of Ostankino in order to advance with the production of higher value added products (different kind of sour creams, yogurts) and catch the opportunities of dairy import substitution after the Russian sanctions against EU, US and third 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 Moloko Krainy partner dairy cooperative business.

New markets and distribution:

- Further develop a distribution network in Kazakhstan, other Central Asia countries.
- Build a distribution network in China.
- Seek for new business opportunities in Middle East and MENA countries.
- Use an opportunities of export to EU of Ukrainian made dairy within the quotas agreed under the FTZ agreement between Ukraine and EU.

Sales and marketing:

- Increase sales in Ukrainian market by means of promotion of dairy goods under the Group's Dobryana brand, streamlining the product portfolio, further development of the distribution network.
- Promote sales of Ostankino under Zhivo, Tselnoskvasheno brands with a primary attention to the development of sales in key accounts channel.
- Promote a Group's flagman cheese type King Arthur under Dobryana brand in the Polish market.

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 2016 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 2016 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, 26 August 2016

O. Rozhko	A. Yurkevych	O. Yurkevych
G. Logush	W. S. van Walt Meijer	V. Rekov
V. Strukov		

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2016

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Condensed Consolidated Interim Financial Statements

MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the six months ended 30 June 2016
(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2016 (unaudited)	31 December 2015 (audited)	30 June 2015 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	1,120	907	10,154
Trade and other receivables	7	22,360	19,506	51,784
Inventories	8	13,514	12,193	18,055
Current biological assets	12	2,505	1,621	2,868
Current income tax assets		493	947	751
Other taxes receivable	9	5,781	5,417	7,861
		45,773	**40,591**	**91,473**
Non-Current Assets				
Goodwill	10	1,859	1,746	2,160
Property, plant and equipment	11	112,777	117,787	119,420
Investment property		19,041	20,065	-
Non-current biological assets	12	1,484	1,507	1,704
Other intangible assets	11	2,209	1,695	1,935
Deferred income tax assets		2,966	3,159	5,785
		140,336	**145,959**	**131,004**
TOTAL ASSETS		**186,109**	**186,550**	**222,477**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	35,050	24,659	32,140
Current income tax liabilities		59	351	72
Other taxes payable	14	2,129	2,118	2,702
Short-term loans and borrowings	15	104,608	103,410	100,639
		141,846	**130,538**	**135,553**
Non-Current Liabilities				
Loans and borrowings	15	3,045	4,061	4,872
Deferred income tax liability		14,536	14,706	16,044
Other non-current liabilities		202	1,304	290
		17,783	**20,071**	**21,206**
Total liabilities		**159,629**	**150,609**	**156,759**
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		77,120	79,866	65,984
Currency translation reserve		(42,962)	(48,651)	(50,120)
Retained earnings		(60,641)	(48,377)	(3,676)
		25,329	**34,650**	**64,000**
Non-controlling interests		**1,151**	**1,291**	**1,718**
Total equity		**26,480**	**35,941**	**65,718**
TOTAL LIABILITIES AND EQUITY		**186,109**	**186,550**	**222,477**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2016
(All amounts in euro thousands unless otherwise stated)

	Notes	2016 (unaudited)	2015 (unaudited)
Revenue	17	73,945	97,657
Change in fair value of biological assets		(230)	277
Cost of sales	18	(62,913)	(81,863)
Gross Profit		**10,802**	**16,071**
Selling and distribution expenses	19	(6,469)	(8,350)
Administrative expenses	20	(6,370)	(7,215)
Other income/(expenses), net	21	725	(136)
Operating (loss)/profit		**(1,312)**	**370**
Finance income	22	1	1,039
Finance expenses	23	(13,222)	(26,025)
Loss before tax		**(14,533)**	**(24,616)**
Income tax	24	(571)	520
Net loss for the period		**(15,104)**	**(24,096)**
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		5,643	(4,779)
Total comprehensive loss		**(9,461)**	**(28,875)**
Loss attributable to:			
Owners of the Company		(15,010)	(23,870)
Non-controlling interests		(94)	(226)
		(15,104)	**(24,096)**
Total comprehensive loss:			
Owners of the Company		(9,321)	(28,145)
Non-controlling interests		(140)	(730)
		(9,461)	**(28,875)**
Earnings per share		(48,03)	(76.38)

MILKILAND N.V.
Condensed consolidated interim statement of cash flows
For the six months ended 30 June 2016
(All amounts in euro thousands unless otherwise stated)

	Note	2016 (unaudited)	2015 (unaudited)
Cash flows from operating activities:			
Loss before income tax		**(14,533)**	**(30,707)**
Adjustments for:			
Depreciation and amortization	11	5,298	6,332
Loss from disposal and write off of inventories	21	351	520
Change in provision and write off of trade and other accounts receivable	21	124	340
Change in provision and write off of unrealised VAT	21	176	752
(Income)/Loss from write off and disposal of non-current assets	21	(625)	109
Change in fair value of biological assets		230	193
Operational foreign exchange results, net	21	6	(1,303)
Finance income	22	(1)	(1,345)
Finance expenses	23	13,220	39,063
Write off of accounts payable	21	(14)	(6)
Operating cash flow before movements in working capital		**4,232**	**13,948**
Increase in trade and other accounts receivable		(6,775)	(1,333)
Increase in inventories		(1,490)	(2,345)
Increase in biological assets		(1,257)	(47)
Increase/(Decrease) in trade and other payables		10,415	(4,660)
Increase in other taxes receivable		(735)	(2,480)
Increase/(Decrease) in other taxes payable		11	(377)
Net cash provided by/(used in) operations:		**4,401**	**2,706**
Income taxes paid		(393)	(2,059)
Interest received		46	783
Interest paid		(2,829)	(5,181)
Net cash provided by/(used in) operating activities		**1,225**	**(3,751)**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(787)	(3,218)
Proceeds from sale of property, plant and equipment		-	
Net cash used in investing activities		**(787)**	**(3,218)**
Cash flows from financing activities			
Proceeds from borrowings	15	14,154	51,975
Repayment of borrowings	15	(14,399)	(44,273)
Commission paid and fair value adjustment		(14)	(36)
Net cash (used in)/ provided by financing activities		**(259)**	**7,666**
Net increase/decrease in cash and equivalents		**179**	**697**
Cash and equivalents, beginning of the period	6	**907**	**13,056**
Effect of foreign exchange rates on cash and cash equivalents		34	(1,301)
Cash and equivalents, end of the period	6	**1,120**	**12,452**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							
	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)**	**Total equity (unaudited)**
Balance at 1 January 2015	**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**	**2,448**	**94,593**
Loss for the period	-	-	-	-	(23,870)	**(23,870)**	(226)	**(24,096)**
Other comprehensive loss, net of tax effect	-	-	(4,275)	-	-	**(4,275)**	(504)	**(4,779)**
Total comprehensive loss for the period	**-**	**-**	**(4,275)**	**-**	**(23,870)**	**(28,145)**	**(730)**	**(28,875)**
Realised revaluation reserve, net of income tax	-	-	-	(2,518)	2,518	-	-	-
Balance at 30 June 2015	**3,125**	**48,687**	**(50,120)**	**65,984**	**(3,676)**	**64,000**	**1,718**	**65,718**
Balance at 1 January 2016	**3,125**	**48 687**	**(48 651)**	**79 866**	**(48 377)**	**34 650**	**1 291**	**35 941**
Loss for the period	-	-	-	-	(15 010)	**(15 010)**	(94)	**(15 104)**
Other comprehensive loss, net of tax effect	-	-	5 689	(0)	-	**5 689**	(46)	**5 643**
Total comprehensive loss for the period	**-**	**-**	**5 689**	**(0)**	**(15 010)**	**(9 321)**	**(140)**	**(9 461)**
Realised revaluation reserve, net of income tax	-	-	-	(2 746)	2 746	**-**	-	**-**
Balance at 30 June 2016	**3,125**	**48 687**	**(42 962)**	**77 120**	**(60 641)**	**25 329**	**1 151**	**26 480**

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 2016 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 26 August 2016.

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 Hillegomstraat 12-14,1058LS, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska St., 02090, Kyiv, Ukraine.

As at 30 June 2016 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 with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine Russia and Poland, able to process up to 1,330 thousand tonnes 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 2016, the Group employed 5459 people.

(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	Effective share of ownership 30 June 2016	31 December 2015	30 June 2015
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 Corporation	Panama	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	100.0%	100.0%	100.0%
JSC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Milkiland RU	Russia	Managing/Trade	100.0%	100.0%	100.0%
LLC Moloko-Kursk	Russia	Production entity	100.0%	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	Managing company	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	72.3%	72.3%	72.3%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Molochni vyroby	Ukraine	Trade	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 company	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%
LLC Stugna-Moloko	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	Trade	100.0%	100.0%	100.0%
PJSC Iskra	Ukraine	Agricultural	70.8%	70.8%	70.8%
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	Ukraine	Agricultural	100.0%	100.0%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	Agricultural	97.5%	97.5%	97.5%
LLC Agro-Mena	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Iskra-Sloboda	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Lendinvest 3000	Ukraine	Investment assets	100.0%	100.0%	-
LLC Agrolendinvest	Ukraine	Investment assets	100.0%	100.0%	-
LLC Phobostrade	Ukraine	Investment assets	100.0%	100.0%	-
LLC Kilchensky Berig	Ukraine	Investment assets	100.0%	100.0%	-
LLC Novomoskovsk Dairy	Russia	Production entity	100.0%	100.0%	-
UA TRADE Sp. z o.o.	Poland	Trade	100.0%	-	-
Newholm Systems S.A.	Panama	Trade	100.0%	-	-
Agrointer Corporation	Panama	Trade	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 2016 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 2015, 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 2015.

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.

New and amended standards adopted by the Group. There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Group.

New standards and interpretations not yet adopted. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

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 cyclicality 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 2016 the in-house milk production covered c.5% of milk intake in Ukraine.

(All amounts in euro thousands unless otherwise stated)

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:

	US dollar	UAH	RUR	PLN
As at 30 June 2016	1.1102	27.5934	71.2102	4.4255
Average for six months ended 30 June 2016	1.1158	28.4090	78.3669	4.3663
As at 31 December 2015	1.0887	26.1295	79.6972	4.2615
As at 30 June 2015	1.1189	23.5141	61.5206	4.1944
Average for six months ended 30 June 2015	1.1163	23.7961	64.3057	4.1420

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. Additional information is disclosed in note 25.

(All amounts in euro thousands unless otherwise stated)

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:

	2016				**2015**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	48,074	21,066	5,658	74,798	59,245	30,375	8,456	98,076
Inter-segment revenue	-	-	(853)	(853)	-	-	(419)	(419)
Revenue from external customers	48,074	21,066	4,805	73,945	59,245	30,375	8,037	97,657
EBITDA	**3,008**	**1,040**	**64**	**4,112**	**5,315**	**2,570**	**(627)**	**7,258**
EBITDA margin	6%	5%	1%	6%	9%	8%	(8%)	7%
Depreciation and amortisation	1,446	2,935	917	5,298	1,480	3,513	1,011	6,004

(All amounts in euro thousands unless otherwise stated)

4 Segment information (Continued)

Inter-segment revenue is related to inter-group sales of dairy goods, mainly cheese, produced in Ukraine and Poland to be sold in the Russian market to third party customers.

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

	2016				2015			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	24,513	42,436	7,849	74,798	31,241	56,035	10,800	98,076
Inter-segment revenue	(420)	-	(433)	(853)	(398)	-	(21)	(419)
Revenue from external customers	24,093	42,436	7,416	73,945	30,843	56,035	10,779	97,657
EBITDA	**1,810**	**2,447**	**(145)**	**4,112**	**1,955**	**5,721**	**(418)**	**7,258**
EBITDA margin	8%	6%	(2%)	6%	6%	10%	(4%)	7%
Depreciation and amortisation	1,978	2,062	1,258	5,298	2,262	2,280	1,462	6,004

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

	2016	2015
EBITDA	4,112	7,258
Other segments EBITDA	(695)	(884)
Total segments	**3,417**	**6,374**
Depreciation and amortisation	(5,298)	(6,004)
Non-recurring items	(56)	(105)
Loss from disposal and impairment of non-current assets	625	105
Finance expenses	(13,222)	(26,025)
Finance income	1	1,039
Loss before tax	**(14,533)**	**(24,616)**

(All amounts in euro thousands unless otherwise stated)

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 (revised 2003) "Related Party Disclosures". During the reporting period the company had related party transactions with ultimate shareholder, key management and companies under common control.

Group's transactions with its related parties for the six months ended 30 June were as follows:

Entities under common control:	**2016**	**2015**
Revenue	-	228

The outstanding balances due from related parties were as follows:

Entities under common control:	**30 June 2016**	**31 December 2015**	**30 June 2015**
Trade accounts receivable	253	261	5,066
Other financial assets	3,469	2,251	19,244
Other accounts receivable	85	64	313

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2016 paid or payable to key management for employee services is EUR 335 thousand (2015: EUR 343 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 2016	**31 December 2015**	**30 June 2015**
Short term deposits	38	39	8,388
Cash in bank and cash on hand	1,082	868	1,766
Total cash and cash equivalents	**1,120**	**907**	**10,154**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	30 June 2016	31 December 2015	30 June 2015
Trade accounts receivable	13,814	14,724	23,857
Other financial assets	11,249	10,463	19,670
Allowance for doubtful debts	(9,972)	(10,324)	(2,526)
Total financial assets within trade and other receivables	**15,091**	**14,863**	**41,001**
Advances issued	3,675	2,197	9,372
Other receivables	4,352	3,124	2,116
Allowance for doubtful debts	(758)	(678)	(705)
Total trade and other accounts receivable	**22,360**	**19,506**	**51,784**

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 2016	31 December 2015	30 June 2015
Raw and other materials	4,834	5,870	6,515
Finished goods and work in progress	8,517	6,191	11,198
Agriculture produce	163	132	342
Total inventories	**13,514**	**12,193**	**18,055**

9 Other taxes receivable

	30 June 2016	31 December 2015	30 June 2015
VAT recoverable	5,653	5,291	7,749
Payroll related taxes	78	81	98
Other prepaid taxes	50	45	14
Total other taxes receivable	**5,781**	**5,417**	**7,861**

10 Goodwill

	2016	2015
Balance at 1 January	1,746	2,147
Foreign currency translation	113	13
Balance at 30 June	**1,859**	**2,160**

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.

(All amounts in euro thousands unless otherwise stated)

11 Property, plant and equipment and intangible assets

During six months ended 30 June 2016 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 787 thousand (2015: EUR 1,294 thousand), which comprised mainly modernisation of milk processing capacities.

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 2016, 2015 and 31 December 2015 biological assets comprise the following groups:

	30 June 2016		**31 December 2015**		**30 June 2015**	
Current biological assets of animal breading	Units	Amount	Units	Amount	Units	Amount
Cattle	4,022	1,182	4,356	1,594	4,851	1,886
Other livestock	-	-	-	6	-	1
Total biological assets of animal breading	**4,022**	**1,183**	**4,356**	**1,600**	**4,851**	**1,887**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount	Hectares	Amount
Wheat	-	-	-	-	-	-
Barley	-	-			1,060	190
Other	-	1,322	-	21	-	791
Total biological assets of plant growing	**-**	**1,322**		**1,621**	**-**	**981**
Total current biological assets	**-**	**2,505**		**1,621**	**-**	**2,868**
Non-current biological assets	Units	Amount	Units	Amount	Units	Amount
Cattle	2,733	1,482	2,642	1,507	2,690	1,702
Other livestock	-	2	-	-	-	2
Total non-current biological assets	**2,733**	**1,484**	**2,642**	**1,507**	**2,690**	**1,704**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	30 June 2016	31 December 2015	30 June 2015
Trade payables	16,145	15,000	22,840
Accounts payable for fixed assets	1	37	18
Interest payable	7,624	4,653	2,372
Other financial payables	(504)	200	174
Total financial liabilities within trade and other payable	**23,266**	**19,890**	**25,404**
Wages and salaries payable	2,118	1,406	2,234
Advances received	3,414	944	2,088
Other accounts payable	4,619	1,399	701
Accruals for employees’ unused vacations	1,633	1,020	1,713
Total trade and other payables	**35,050**	**24,659**	**32,140**

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

	30 June 2016	31 December 2015	30 June 2015
VAT payable	703	952	1,454
Payroll related taxes	1,313	1,069	1,079
Other taxes payable	113	97	169
Total other taxes payable	**2,129**	**2,118**	**2,702**

(All amounts in euro thousands unless otherwise stated)

15 Loans and borrowings

	30 June 2016	31 December 2015	30 June 2015
Current			
Interest bearing loans due to banks	103,037	101,862	99,264
Loans from non-financial institutions	-	-	20
Bank overdrafts	469	512	362
Finance leases	1,102	1,036	993
Total current borrowings	**104,608**	**103,410**	**100,639**
Non-current			
Interest bearing loans due to banks	2,055	2,894	3,593
Finance leases	990	1,167	1,279
Total non-current borrowings	**3,045**	**4,061**	**4,872**
Total borrowings	**107,653**	**107,471**	**105,511**

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

	2015	2014
Balance at 1 January	**107,471**	**101,906**
Obtained new loans and borrowings	14,140	19,344
Repaid loans and borrowings	(14,399)	(22,260)
Discounting of borrowings	-	-
Foreign exchange (gain)/loss	441	6,521
Balance at 30 June	**107,653**	**105,511**

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 June 2016 and 31 December 2015 were as follows:

	30 June 2016					31 December 2015				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	69,372	13,259	18,744	3,233	**104,608**	73,706	10,109	15,967	3,628	**103,410**
Average interest rate, %	7.89	18.60	15.22	12.44	**10.70**	8.93	24.59	15.28	13.74	**11.61**
1-5 years										
Outstanding balance, thousand EUR	2,055	-	78	912	**3,045**	2,894	-	49	1,118	**4,061**
Average interest rate, %	3.00	-	9.27	13.81	**6.40**	8.33	-	5.21	13.00	**14.35**

15 Loans and borrowings (Continued)

As at 30 June 2016 the Group has not met requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio. A waiver of breach of covenants being issued in August 2015 and Management are in process of negotiation with lenders as at the date of these financial statements approval.

16 Share capital

Share capital as at 30 June is as follows:

	2016		2015	
	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				
Ordinary shares of 10c each				
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**

17 Revenue

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

	2016	**2015**
Cheese & Butter	24,093	30,843
Whole-milk products	42,436	56,035
Ingredients	7,416	10,779
Total revenue	**73,945**	**97,657**

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

	2016	**2015**
Russia	48,003	59,245
Ukraine	18,201	26,099
Poland	3,860	8,052
Other	3,881	4,261
Total revenue	**73,945**	**97,657**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2016	2015
Raw and other materials	51,372	65,108
Wages and salaries	3,628	4,045
Depreciation	4,786	5,126
Transportation costs	1,181	2,046
Gas	1,872	2,621
Electricity	1,854	2,086
Social insurance contributions	847	1,291
Repairs of property, plant and equipment	1,006	1,343
Water	150	159
Other	1,857	1,635
Changes in finished goods and work in progress	(5,640)	(3,597)
Total cost of sales	**62,913**	**81,863**

19 Selling and distribution expenses

	2016	2015
Transportation costs	3,082	3,689
Security and other services	202	414
Marketing and advertising	559	1,003
Wages and salaries	1,537	2,016
Social insurance contributions	381	622
Licence fees	19	26
Rental costs	86	128
Depreciation and amortisation	120	127
Other	483	325
Total selling expenses	**6,469**	**8,350**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2016	2015
Wages and salaries	2,867	3,252
Social insurance contributions	458	760
Taxes and other charges	772	586
Representative charges	188	124
Other utilities	59	70
Bank charges	217	142
Repairs and maintenance	166	158
Depreciation and amortisation	303	699
Consulting fees	741	344
Security and other services	202	222
Transportation costs	138	203
Property insurance	17	23
Rental costs	148	151
Communication	74	101
Office supplies	18	25
Other	2	355
Total administrative expenses	**6,370**	**7,215**

21 Other expenses, net

	2016	2015
Government grants recognised as income	578	175
Gain from write off of accounts payable	14	2
Change in provision and write off of trade and other accounts receivable	(124)	(264)
Depreciation and amortisation	(88)	(51)
Other income, net	359	276
Loss from disposal of non-current assets	625	105
Loss from disposal and write off of inventories	(351)	(277)
Penalties	(157)	(102)
Operational foreign exchange results, net	(6)	(94)
Change in provision and write off of VAT receivable	(176)	94
Total other expenses, net	**725**	**(136)**

(All amounts in euro thousands unless otherwise stated)

22 Finance income

	2016	2015
Other finance income	-	-
Finance foreign exchange gain, net	-	717
Bank deposits	1	322
Total finance income	**1**	**1,039**

23 Finance expenses

	2016	2015
Bank borrowings	5,809	6,076
Other finance expenses	72	107
Finance leases	41	60
Discounting of loans	-	-
Finance foreign exchange loss, net	7,300	19,782
Total finance expenses	**13,222**	**26,025**

24 Income tax

	2016	2015
Current income tax	637	878
Deferred income tax	(66)	(1,398)
Total income tax	**571**	**(520)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2016 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2015: 18%), Russian profit tax was levied at the rate of 20% (2015: 20%), Poland profit tax was levied at the rate of 19% (2015: 19%). In 2016 the tax rate for Panama operations was 0% (2015: 0%) on worldwide income.

25 Contingent and deferred liabilities

Litigation

The Group from time to time participates in legal proceedings. None of them either separately or in aggregate had significant negative effect on the Group.

DE Milkiland Ukraine, the subsidiary of the Company, participates in a case for the recovery of debt obligations, acting as a defendant. The subject of the lawsuit is a debt collection under the loan agreement for the total amount EUR 2,165 thousand as at 30 June 2016. In the mentioned case PJSC "Bank Forum" is a plaintiff and DE Milkiland Ukraine and the Company are solidarity defendants. Another group company DE Aromat acts a mortgagor and granted as collateral its property, plant and equipment with value of EUR 3,867 thousand as at 30 June 2016.

25 Contingent and deferred liabilities (continued)

Possible additional penalty on this case was calculated in the amount of EUR 440 thousand. But management expects a positive resolution of the case.

As at 30 June 2016 according to the Court order (in connection with the appeal of the Economic Court of Kiev with letter for legal assistance to the Central Authority of the foreign state (the Netherlands)), the proceedings was postponed to 26 December 2016.

As at the date of financial statement issue, the shareholders of PJSC Bank Forum challenged in court the legality of the introduction of the temporary administration and the opening of liquidation proceedings.

According to the ruling of Supreme Court of Ukraine issued in January 2015, all of the previous court rulings and orders regarding the liquidation of the bank were overturned and the case was adjourned to the new hearing which is not yet appointed. In this regard, the credentials of representatives Deposit Guarantee Fund, acting on behalf of the bank in the courts, are controversial.

If the court decision is not in favour of DE Milkiland Ukraine, such a decision may have an effect on the financial condition or results of operations of the Company subsidiaries. There is a potential risk that the lender can foreclose on DE Milkiland Ukraine by reissuing the ownership of the mortgaged property to a new owner without the knowledge DE Milkiland Ukraine. In addition, penalties for a late return of the loan may be charged.

Management believe that in the case of the completion of disputes relating to the powers of the temporary administration Bank PJSC Forum and the decision by a court on the future operations of the Bank, DE Milkiland Ukraine will be able to engage in constructive dialogue with the legitimate administration of the Bank for further restructuring of the company's obligations, as well as the payment of its liabilities and assets deriving from collateral. As at 30 June 2016 no additional obligations except for the direct liabilities under the loan contract were recognized in these financial statements.

Insurance policies
The Group insures all significant property. As at 30 June 2016 and 30 June 2015, most of the Group’s property is insured.

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

26 Capital management policy

Main objectives of the Group’s capital management policy are the improvement of the financial independence and liquidity coefficient, improvement of accounts receivable structure and capital impairment.
Basic capital structure management methods are profits maximization, investment program management, borrowed capital management, use of borrowing costs of different classes.

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the six months ended 30 June 2016 no changes were made in objectives, policies and procedures of the capital management.

26 Capital management policy (continued)

The Group controls over its capital using the financial leverage coefficient calculated through division of the net debt by the sum of capital and net indebtedness.

The Group has external requirements to the capital in respect of syndicate loan received by the Company with outstanding balance as at 30 June 2016 in amount 52,765 EUR thousand:

- Tangible net worth should not at any time be less than 105,000 EUR 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.

As at 30 June 2016 the Group has not met requirement in respect of above mentioned covenants. A waiver of breach of covenants is being negotiated and Management is in process of loan restructuring negotiation with lenders as at the date of these financial statements approval (note 0). According to the original loan terms signed on December 16, 2012, the Company should repay the whole amount of loan denominated in USD till the end of December 2015. As at 30 June 2016, the full value of loan in amount 52,765 EUR thousand (58,580 USD thousand in original currency) is classified as current interest bearing loans due to banks (note 15).

27 Earnings per share

	2016	2015
Numerator		
Earnings used in basic and diluted EPS	**(15,010)**	**(23,870)**
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	**31,250**	**31,250**

28 Subsequent events

Start of the export to People's Republic of China

In July 2016, Milkiland Ukraine with the support of Milkiland Intermarket, both the subsidiaries of the Group, has concluded first contract and started supplying dry milk products produced by the Group's Ukrainian facilities to the consumer in People's Republic of China.

Previously, five production subsidiaries of Milkiland Ukraine, including Romny dairy combine and Mena cheese plant, passed relevant examinations and were cleared for export to China of cheese and different types of dry milk products by Certification and Accreditation Administration of the PRC.

The Group considers the implementation of this contract as a first step to development of the distribution network in the promising and developing Chinese dairy market.

Restructuring of the credit facilities of Credit Agricole Bank

On 4 July 2016, PJSC Credit Agricole Bank signed the Amendment agreement to the Loan Facility Agreement with DE "Milkiland-Ukraine" and 3 agri-subsidiaries of the Group, namely, ALLC "Nadiya", LLC "Uspikh-Mena", PJSC "Iskra" on restructuring a debt obligations in the total amount of USD 14.456 million (EUR 13.1 million).

According to the Amendment agreement, the repayment term is extended until 30 June, 2019, lowered interest rates were applied to the borrower's indebtedness.

The Loan Facility is secured by the pledge of the real estate of agri-subsidiaries of the Group, mortgage of the production equipment, sureties from several subsidiaries of the Group and guarantee of Milkiland N.V.