Report of the Board of Directors on operations in the first half of 2019

Contents

Overview of Operations in H1 2019 and Outlook for the Year 2019

Strategy and Operations

In the first half of 2019 the macroeconomic environment in the key markets of the Group in Russia and Ukraine demonstrated growing differences.

In particular, the stagnation trends in Russian economy were strengthened. Russian authorities penciled minor 0.9% increase of GDP in H1 2019 on y-o-y basis. The CPI in Russia for the same period stood at single-digit 5.1% in comparison with the first half of 2018. This led to the decline of the real disposable income of Russians by 1.3% in H1 2019 on y-o-y basis and also triggered stagnation of the retail trade turnover, which grew by 1.7 % in H1 2019 in comparison with H1 2018.

The restoration of the Ukrainian economy in H1 2019 became more evident. The real GDP of the country in Q1 2019 increased by 2.5% in comparison with the same period of 2018, while CPI stood at relatively low 3.6%. Those trends made a background for the growth of the real wages of the Ukrainians by 9.8%, the real disposable income of the population – by 7.7% in H1 2019 on y-o-y basis. As the consequence, retail trade turnover in Ukraine in the first half of 2019 grew by double-digit 10.3% in comparison with H1 2018.

In H1 2019 the national currencies of Russia and Ukraine followed the different ways. While Russian rouble devalued against EUR during this period on average by 2.8% on y-o-y basis, Ukrainian hryvnya revalued against European currency by c. 6%.

All in all, in H1 2019 the Russian dairy producers conducted their business on the back of stagnation of the consumer's demand, while in Ukraine the local and foreign producers enjoyed the situation of the growing demand from Ukrainians.

At the same time, in both countries there was not a direct influence of the changes in customer demand to the performance of dairy industry. For example, in H1 2019 the production volumes of the fresh dairy in Ukraine increased by 1.0% on y-o-y basis, contrary to the decline in butter and cheese-like products production volumes (-21% and -40% y-o-y, respectively) and also SMP (-21% y-o-y). In turn, Russian producers during reporting period managed to increase the cheese production volumes by 7% in comparison with H1 2018 on the back of declined volumes of production of cheese-like products (-8% on y-o-y basis), butter (6% y-o-y) and also curd cheese (-8% y-o-y).

Milkiland in H1 2019 managed to increase the sales volumes of some products, first of all, butter in the key markets of Russia and Ukraine, as well as dry milk products in the new selling markets, including China. Despite this, the sales in both main product segments of the Group, namely, Whole-milk products and Cheese&Butter in H1 2019 were lower in volume and value terms than in H1 2018.

Revenues in Cheese&butter segment in the first six months of 2019 decreased by c. 19% in comparison with the same period of 2018 to EUR 19.7 million on the back of decline of cheese sales volume in Ukraine and Poland. Due to this decline and also higher input prices for raw milk both in Russia (+14% y-o-y) and Ukraine (+5% y-o-y) in the reporting period EBITDA of the above-mentioned segment felt by c. 95% to EUR 0.09 million in comparison with c. EUR 1.8 million in H1 2018.

In H1 2019 Milkiland posted minor c. 3.8% decline in revenues in Whole-milk product segment in comparison with the same period of 2018 to c. EUR 31.6 million, mainly driven by decrease the sales volumes in Russia. The EBITDA of this segment in the reporting period declined by c. 80% on y-o-y basis due to higher raw materials cost and intensified competition in Russian and Ukrainian dairy markets.

The revenue in Ingredients segment grew dramatically by c. 62% in H1 2019 in comparison with the same period of 2018 based at boosted volume sales of these products in the global market. The EBITDA margin stood at low negative c. -2% level. For more information on the situation on global dairy markets, please refer to section *Dairy Markets*.

In H1 2019 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 of a Ukrainian produce were sold to China.

In the reporting period, Russian segment of the Group's business faced a situation of lower volume sales on the back of 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. 14% on average higher than in H1 2018, while RUB devalued by c. 3% against EUR on average in the comparison with the same period of last year).

As the result, Ostankino's revenue in H1 2019 in comparison with the same period of the last year decreased by c. 10% to c. EUR 26.5 million, while EBITDA slid by c. 87% to c. EUR 0.25 million.

Milkiland RU continued the localization of cheese production at its subsidiary in Rylsk. Due to increased inputs costs on the back on higher raw milk prices, in the reporting period this subsidiary of the Group delivered c. 6% decline on a top-line and c. 38% slid on EBITDA level, which in H1 2019 stood at c. EUR 10.2 million and c. EUR 0.54 million, respectively.

Russia remains the best performing geographical segment of the Group's business in H1 2019, which generated c.58% of the Group's revenue and c.83% of EBITDA. The revenue of this segment in the reporting period declined by c. 9% on y-o-y basis, while the segments EBITDA declined by c.70% to EUR 0.8 million.

Milkiland Ukraine in H1 2019 focused on the development of sales, primarily in the key accounts channel. Mainly, due to higher sales volumes of butter, the top-line of Ukrainian segment in H1 2019 increased by c. 36% to c. EUR 25 million, but higher inputs costs led to the decline on EBITDA level to c. EUR 0.2 million on y-o-y basis.

Milkiland EU in H1 2019 significantly increased its negative EBITDA to EUR 0.8 million in comparison with negative c. EUR 0.09 million in H1 2018. The main factors behind this were moderate pricing on the company's traditional dry milk products, including WPC and permeate, in the global dairy market, as well as lower cheese sales volumes in the domestic market of Poland.

On the cost side, raw and other materials costs in H1 2019 stood at practically the same level as in H1 2018 due to the influence on the opposite factors: growth of the raw milk prices in Russia and Ukraine by c. 14% and 5% in H1 2019 on average in comparison with H1 2018, respectively, which was offset by lower milk processing volumes in the countries of the Group's operations and also by revaluation of the Group's operational currency, Ukrainian hryvnya, against EUR by c. 6% on y-o-y basis.

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 slightly corrected by c. 0.4% y-o-y to c. EUR 65.9 million, while EBITDA declined significantly by c. 85% c. EUR 0.5 million.

In H1 2019 Milkiland posted a net loss of c. EUR 7.3 million in comparison with the negative financial result of c. EUR 2.5 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 particular, the volume of raw milk delivered for processing in European Union in 5 months of 2019 grew slightly by 0.3% to 67.6 million ton on y-o-y basis. As the result, the volumes of the production of some dairy products increased as follows on y-o-y basis: butter - +2.4%, cheese - +0.3%, DMP – + 1.3%.

During H1 2019 butter market of EU faced a stagnating demand and declining prices trend. The latter were on a significantly lower level than in the same period of 2018. By the end of June 2019 the average price per ton of butter in Europe stood at c. 3,650 USD in comparison with c. USD 6,600 in the same period of 2018.

Contrary to EU situation, Oceania in the first half of 2019 demonstrated a trend of growing butter prices, which in May-June 2019 climbed to relatively high level of 2018, namely c. USD 4,600 per ton. The pretty much high prices for butter also took place at US market.

In the situation of balanced supply and demand stability took place at the EU cheese market. There were no significant prices fluctuations during first half of 2019. By the end of period, in May-June 2019 the prices for Gauda/Edam types of cheese in EU stood at 3,400-3,500 USD/ton, almost the same as in the respective period of 2018.

More active situation in H1 2019 was observed in the dry milk products markets in EU and Oceania. In particular, the prices for SMP in EU in the reporting period were higher on y-o-y basis and achieved the level of c. USD 2,300-2,350 per ton in June 2019. In Oceania, the prices for this product fluctuated at significantly higher level than in H1 2019 and stood at c. USD 2,400 per ton in June 2019 in comparison with c. USD 2,090 in the same month of 2018.

In the Group's key market of Russia, according to Rosstat the output of the raw milk in H1 2019 grew by 2.9% to 8.5 million ton on y-o-y basis. Based on this background, Russian producers during reporting period increased the cheese production by 7%, butter – by 6% y-o-y, but decreased the production of cheese-like products by 8%, curd cheese – by the same 8% in comparison with H1 2018.

In Ukraine, another key market of Milkiland, according to the State statistics Service of Ukraine the volume of raw milk delivered for processing in H1 2019 amounted c. 2 million ton, which is by 8% lower than in the first half of 2018. The production volumes of the fresh dairy in Ukraine increased by 1.0% in the reporting period on y-o-y basis, contrary to the decline in butter and cheese-like products production volumes (-21% and -40% y-o-y, respectively) and also SMP (-21% y-o-y).

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2019 and 2018 in thousands of Euro.

Selected financial data

	6 m 2019	6 m 2018
I. Revenues	65,880	66,152
II. EBITDA	525	3,548
III. Operating profit	(9,111)	(1,736)
IV. Profit (loss) before tax	(7,524)	(2,235)
V. Net profit (loss)	(7,276)	(2,517)
VI. Cash flows provided by (used in) operating activities	8,945	936
VII. Cash flows used in investing activities	(545)	(367)
VIII. Cash flows (used in) provided by financing activities	(5,828)	(1,227)
IX. Total net cash flow	2,572	(658)
X. Total assets	167,699	167,606
XI. Current liabilities	167,429	138,444
XII. Non-current liabilities	13,282	18,508
XIII. Share capital	3,125	3,125
XIV. Total equity	(13,012)	10,654
XV. Weighted average number of shares	31,250	31,250
XVI. Profit (loss) per ordinary share, EUR cents	(23.24)	(7.96)

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2019	6 m 2018
Revenue	65,880	66,152
Change in fair value of biological assets	1	61
Cost of sales	(57,312)	(54,906)
Gross profit	8,569	11,307
Operating income (expense), net	(17,680)	(13,043)
Operating profit	**(9,111)**	(1,736)
Net finance expense and other non-operating income (expense)	1,587	(499)
Profit (loss) before tax	(7,524)	(2,235)
Income tax (expense) benefit	248	(282)
Net profit (loss)	**(7,276)**	**(2,517)**
Other comprehensive income (loss)	(532)	249
Total comprehensive income	**(7,808)**	**(2,268)**
Net profit (loss) attributable to equity holders of the parent company	**(7,263)**	**(2,488)**
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**(23.24)**	**(7.96)**

Revenue

In the first half of 2019 the Group managed to support the revenues almost at the same level as in the same period of 2018, namely, c. EUR 65.9 million (-0.4% y-o-y). This stable result was triggered by significantly higher top-line in Ukraine (+c.36% y-o-y) compensated by lower sales in Russia and Poland (c. 8.5% and c. 45% on y-o-y basis, respectively).

Positive dynamics of the Group's sales in Ukraine in H1 2019 relied on the higher sales of butter, stable sales of whole-milk products partly offset by the declined sales of cheese. Lower top-line in Russia was fully triggered by the decline of whole-milk products sales, while in Poland the Group faced the drop of cheese and dry milk products sales both in volume and value terms due to shorten operations in this country.

As the result of the lower cheese sales in Ukraine and Poland the Group's overall sales in Cheese&Butter segment in the reporting period declined by 19% to EUR 19.7 million on y-o-y basis, the share of this segment revenues in the total revenues of the Group slid from 37% in H1 2018 to 30% in H1 2019.

WMP segment still being the largest contributor to the Group's revenues in H1 2019 (with the share of 48% vs 50% of the total revenues in H1 2018) demonstrated a 4% correction in value terms, caused mostly by the decline of the sales volumes in Russia by c. 10% in comparison with the same period of 2018.

Better pricing at the global market of dry milk products contributed to noticeable growth of the revenues of Ingredients segment, which increased by c. 62% in the first half of 2019 in comparison with the same period of the last year on the back of almost two-fold increase of the sales volumes of these products. The share of the respective revenues of the segment in the total revenues of the Group, consequently advanced from 14% in H1 2018 to 22% in the reporting period.

Breakdown of the Group's consolidated revenue by product in H1 2019 and H1 2018

	2019		2018		2019 vs. 2018	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	19,683	30%	24,249	37%	(4,566)	-19%
Whole milk products	31,639	48%	32,895	50%	(1,256)	-4%
Ingredients and other	14,558	22%	9,008	14%	5,550	62%
Total	**65,880**	**100%**	**66,152**	**100%**	**(272)**	**0%**

Cost of sales and Gross profit

Cost of sales in the reporting period increased by 4.4% to c. EUR 57.3 million on the back of increased transportation costs (+33% y-o-y), as well as changes in finished goods and work in progress due to some inventories of the goods had to be supplied according to export contracts by the end of the reporting period.

Raw material prices was almost flat in the first half of 2019 in comparison with the same period of 2018 while higher input prices for raw milk both in Russia (+14% y-o-y) and Ukraine (+5% y-o-y) in the reporting period were offset by the revaluation of Ukrainian hryvnya against EUR (+6% on average in H1 2019 on y-o-y basis), as well as lower milk processing volumes in Russia.

Breakdown of the Group's cost of sales in H1 2019-2018, '000 EUR and %

	2019		2018	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	40,767	61.9%	40,643	61.4%
Wages and salaries	3,900	5.9%	3,947	6.0%
Depreciation	3,285	5.0%	3,515	5.3%
Transportation costs	1,683	2.6%	1,264	2.3%
Gas	1,604	2.4%	2,233	1.9%
Other	6,073	9.2%	3,304	5.0%
Total	**57,312**	**87.0%**	**54,906**	**83.0%**

The Group's gross profit decreased by 24% to EUR 8.6 million due the correction of the Group's top-line together with the increase in cost of sales, with the gross margin of 13.0% against 17.0% in the first half of 2018.

Profit from operations and EBITDA

Lower Gross profit of the Group together with higher operational expenses led to the increase of the negative operational result of Milkiland from EUR 1.7 million as of 30 June 2018 to EUR 9.1 million. The lost on disposal of non-current assets of JSC "Ostankino Dairy" in the total amount of c. EUR 4.8 million made the most noticeable contribution to this negative result. For additional information please refer section *Material Factors and Events after the Reporting Date*.

As the result, EBITDA of Milkiland in H1 2019 in comparison with the same period of 2018 slid by 85% to EUR 0.5 million, EBITDA margin stood at 0.8% level in comparison with c. 5.3% in the same period of 2018.

The Group's Russian business EBITDA declined significantly in H1 2019 on y-o-y basis, namely, by c. 70% to EUR 0.8 million on the back of lower milk processing and fresh milk selling volumes. Ukrainian segment EBITDA dropped by more than 80% to c. EUR 0.16 million due to lower sales volumes and loss of margins on export supplies.

The negative EBITDA of the Polish segment in H1 2019 in comparison with the same period of 2018 significantly aggravated to c. EUR 0.8 million. The main reason behind that was the decrease of capacity utilization of Ostrowia facility.

Selling and distribution expenses increased a bit by 3.4% to EUR 5.2 million on the back of growing sales volumes, primarily in Ingredients segment.

Profit before tax and Net profit

In the first half of 2019 financial expenses was almost flat on y-o-y basis and stood at EUR 3.8 million, while financial income of the Group increased by c. 60% to c. EUR 5.3 million fueled by the foreign exchange gain because of the revaluation of Ukrainian hryvnya against EUR, the reporting currency of the Group (by c. 6% on average in H1 2019 vs H1 2018).

As the result, the Group recognized loss before tax of c. EUR 7.5 million compared with the negative result in this level of c. EUR 2.2 million in the same period of 2018. Net loss for the first half of 2019 accounted for c. EUR 7.3 million vs net loss for H1 2018 of c. EUR 2.5 million.

Financial Position

Summary balance sheet, ‘000 EUR

EUR ths	June 30, 2019	December 31, 2018	June 30, 2018
Cash and cash equivalents	2,914	334	746
Trade and other receivables	39,221	19,172	23,927
Inventories	9,603	10,078	9,472
Other current assets	10,061	8,282	8,500
Total current assets	**61,799**	**37,866**	**42,645**
PPE	81,040	90,773	99,394
Deferred income tax assets	90	70	2,504
Other non-current assets	5,145	5,130	4,743
Total non-current assets	**105,900**	**114,043**	**124,961**
Total assets	**167,699**	**151,909**	**167,606**
Trade and other payables	80,425	53,971	49,003
Short-term loans and borrowings	79,972	83,425	83,639
Other current liabilities	7,032	5,417	5,802
Total current liabilities	**167,429**	**142,813**	**138,444**
Loans and borrowings	2,241	2,530	3,893
Deferred income tax liability	10,278	11,054	14,488
Other non-current liabilities	763	716	127
Total non-current liabilities	**13,282**	**14,300**	**18,508**
Total liabilities	**180,711**	**157,113**	**156,952**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	80,782	87,781	88,293
Retained earnings	(98,237)	(97,358)	(82,081)
Total equity attributable to equity holders of the parent company	**(14,330)**	**(6,452)**	**9,337**
Non-controlling interests	1,318	1,248	1,317
Total equity	**(13,012)**	**(5,204)**	**10,654**
Total liabilities and equity	**167,699**	**151,909**	**167,606**

Assets

Mostly due to the noticeable growth of the trade and other receivables from c. EUR 23.9 million as of 30 June 2018 to c. EUR 39.2 million as of 30 June 2019, the Group’s current assets increased by c.45% to EUR 61.8 million as of 30 June 2019 in comparison with c. EUR 42.6 million as of 30 June 2018. In turn, non-current assets as of 30 June 2019 declined by c.15% to c. EUR 105.9 million resulting pratically flat total assets as of 30 June 2019 in comparison with the same date of the year 2018.

Liabilities and equity

Total liabilities increased by c.15% as of 30 June 2019 in comparison with 30 June 2018 mainly resulting from a c.21% growth in current liabilities in turn triggered by the noticeable increase of trade and other payables from c. EUR 49 million as of June 30, 2018 to c. EUR 80.4 million on the same date of the current year.

The Group’s short-term loan portfolio decreased by 4.4% as of 30 June 2019 in comparison with the same period of the last year to c. EUR 80 million due to the partial debt repayment in the amount of EUR 6.0 million partly offset by the foreign exchange loss.

As the result of the above mentioned movements, during H1 2019 the net debt of Milkiland Group decreased by c. 8.6% to c. EUR 79.3 million as of 30 June, 2019 in comparison with the same date of the year 2018.

The Group's total equity due to the negative retained earnings as of 30 June 2019 stood at negative c. EUR 13.0 million.

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

Changes in the Board of Directors

The Annual General Meeting of Shareholders of the Company held on June 28, 2019, 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 2020. The remuneration of Mr. O. Rozhko was set 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 2020. The remuneration of Mr. Willem Scato van Walt Meijer was set 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 another one year period ending at the close of the annual general meeting of shareholders to be held in 2020. The remuneration of Mr. V. Rekov was set in accordance with the remuneration policy of the Company.

(d) Re-appoint Mr. Pavlo Sheremeta as non-executive director of the Board of Directors as of the date of the General Meeting, for one year period ending at the close of the annual general meeting of shareholders to be held in 2020. The remuneration of Mr. Pavlo Sheremeta was set in accordance with the remuneration policy of the Company.

(e) Re-appoint Mr. Anatoliy Yurkevych as an executive director of the Board of Directors, Chief Executive Officer as of the date of the General Meeting, for another four years period ending at the close of the annual general meeting of shareholders to be held in 2023. The remuneration of Mr. A. Yurkevych was set in accordance with the remuneration policy of the Company.

(f) Re-appoint Mr. Olga Yurkevich as an executive director of the Board of Directors, Chief Operational Officer as of the date of the General Meeting, for another four years period ending at the close of the annual general meeting of shareholders to be held in 2023. The remuneration of Mr. O. Yurkevich was set in accordance with the remuneration policy of the Company.

Termination of the appointment of non-executive director of the Board of Directors of Milkiland N.V.

On 28 June 2019, the Board of Directors of Milkiland N.V. made a notification that the appointment of Mr. George Christopher Logusch as the non-executive director of the Board of Directors of Milkiland N.V. was terminated due to the expiry of the appointment period.

Financial issues

Assignment of the Lender rights under the Loan Facility Agreement with a Syndicate of Banks to a New Lender.

On 20 March 2019, the Board of Directors of Milkiland N.V. made a notification that the Assignment agreement between Raiffeisen Bank International, as “the Agent”, and UniCredit Sp.A., as the “Existing Lender”, and Swestal Holding ltd., as the “New Lender”, was signed on 13 March 2019 and came into force on 19 March 2019.

According to the Assignment agreement, the Existing Lender assigns absolutely to the New Lender all the rights of the Existing Lender under the Loan Facility Agreement with the syndicate of international banks, namely, UniCredit Bank Austria AG and ZAO Raiffeisenbank dated 16 December 2011 (“the Facility Agreement”).

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.

The total sum of the Company’s principle indebtedness under the Facility agreement, as of 31 December 2018, stood at USD 58.58 million (c. EUR 51.16 million), full sum is overdue.

Material Factors and Events after the Reporting Date

Suspension of the operations of Ostrowia sp.z.o.o.

In August, 2019, the operations of the cheese making plant Ostrowia sp. z.o.o. was suspended due to negative financial result in H1 2019.

The new business model envisaging the achievement of the profitable results by this facility based at local market and use of export opportunities are now under elaboration by the management of the Group.

Selling of Ostankino assets within the bankruptcy procedures

During first half of 2019 till 30 July 2019 several electronic open auctions for selling of the property of JSC "Ostankino Dairy" took place, Russian subsidiary of Milkiland Group, within the bankruptcy procedure imposed by the Arbitrage Court of the City of Moscow on 26 April 2017.

As the results of the auctions, some property of JSC "Ostankino Dairy", including several auxiliary production premises, warehouses, automobiles and non-core equipment were sold to the new owners. The majority of the property sold was mortgaged to the creditors of JSC "Ostankino Dairy". The total amount of the property sold stood at c. RUB 700 million (c. EUR 9.5 million). Those funds were partly used for repayment of the obligations to the creditors.

As of today, the operations of Ostankino, including the servicing the contracts with the clients are fulfilled by the LLC "Ostankino Dairy" (hereinafter "the Company"), 100% subsidiary of Milkiland Group. The production assets, which are required for the continuation of dairy operations, are controlled by the Company or leased from the new owners.

Also, due to the above mentioned auctions the loss in the amount of c. RUB 356 million (c. EUR 4.8 million) was pencilled by Milkiland Group in H1 2019.

Strategic Plans and Initiatives for H2 2019

The Group's management plan to further implement in the second half of 2019 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 Russia and Ukraine, seeking for a new model of the Group's business 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 creditors of the Group, including negotiation with the creditors under Syndicated Loan Facility in order to agree a way of the settlement of debt under Syndicated Loan Facility Agreement provided by these banks in 2011.
- Continue to fulfill 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 sighed restructuring agreements.

Production:

- Develop a product portfolio of Ostankino in order to advance with the production of higher value-added products (different kind of sour creams, yogurts and other).
- Continue the production of the kosher products for export to Israel, dry milk products for export to global market, including China, different types of soft cheese for export in MENA countries, at the production plants of Milkiland Ukraine.
- Continue a localization of cheese production in Russia by Rylsk cheese plant.
- Find a new model of the operations of Ostrowia cheese production plant in Poland envisaging the profitable results of its business based at the local end export potential of this facility.

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, as a milk collection unit of Milkiland.

New markets and distribution:

- Further develop a distribution network in Kazakhstan, China, Israel, MENA 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.
- Advance with the presence of Ostankino and Rylsk products on the shelfs of key account clients in Russia.
- Reinforce the monitoring of the Russian cheese market and special measures aimed at the struggle with counterfeited cheese under the false trademarks of Milkiland Group.

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 2019 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 2019 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, 29 August 2019

O. Rozhko	A. Yurkevych	O. Yurkevych
/signed/	/signed/	/signed/
W. S. van Walt Meijer	V. Rekov	P. Sheremeta
/signed/	/signed/	/signed/

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2019

Contents

Condensed Consolidated Interim Financial Statements

(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2019 (unaudited)	31 December 2018 (audited)	30 June 2018 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	2,914	334	746
Trade and other receivables	7	39,221	19,172	23,927
Inventories	8	9,603	10,078	9,472
Current biological assets	12	2,429	1,343	2,134
Current income tax assets		297	822	701
Other taxes receivable	9	7,335	6,117	5,665
		61,799	**37,866**	**42,645**
Non-Current Assets				
Goodwill	10	1,460	1,300	1,428
Property, plant and equipment		81,040	90,773	99,394
Investment property		19,625	18,070	18,319
Non-current biological assets	12	2,218	1,938	1,601
Other intangible assets		1,467	1,530	1,714
Deferred income tax assets		90	70	2,504
Other Non-current assets		-	362	-
		105,900	**114,043**	**124,961**
TOTAL ASSETS		**167,699**	**151,909**	**167,606**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	80,425	53,971	49,003
Current income tax liabilities		404	346	579
Other taxes payable	14	6,628	5,071	5,223
Short-term loans and borrowings		79,972	83,425	83,639
		167,429	**142,813**	**138,444**
Non-Current Liabilities				
Loans and borrowings	15	2,241	2,530	3,893
Deferred income tax liabilities		10,278	11,054	14,488
Other non-current liabilities		763	716	127
		13,282	**14,300**	**18,508**
Total liabilities		**180,711**	**157,113**	**156,952**
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		68,174	75,220	77,490
Currency translation reserve		(36,079)	(36,126)	(37,884)
Retained earnings		(98,237)	(97,358)	(82,081)
		(14,330)	**(6,452)**	**9,337**
Non-controlling interests		**1,318**	**1,248**	**1,317**
Total equity		**(13,012)**	**(5,204)**	**10,654**
TOTAL LIABILITIES AND EQUITY		**167,699**	**151,909**	**167,606**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2019
(All amounts in euro thousands unless otherwise stated)

	Notes	2019 (unaudited)	2018 (unaudited)
Revenue	17	65,880	66,152
Change in fair value of biological assets		1	61
Cost of sales	18	(57,312)	(54,906)
Gross Profit		**8,569**	**11,307**
Selling and distribution expenses	19	(5,193)	(5,020)
Administrative expenses	20	(6,059)	(5,551)
Other income/(expenses), net	21	(6,428)	(2,472)
Operating profit/(loss)		**(9,111)**	**(1,736)**
Finance income	22	5,415	3,336
Finance expenses	23	(3,828)	(3,835)
Profit/(loss) before income tax		**(7,524)**	**(2,235)**
Income tax	24	248	(282)
Net profit/(loss) for the year		**(7,276)**	**(2,517)**
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(532)	249
Total comprehensive income/(loss)		**(7,808)**	**(2,268)**
Profit/(loss) attributable to:			
Owners of the Company		(7,263)	(2,488)
Non-controlling interests		(13)	(29)
		(7,276)	**(2,517)**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		(7,878)	(2,355)
Non-controlling interests		70	87
		(7,808)	**(2,268)**
Earnings per share (EURO cent)		(23.24)	(7.96)

MILKILAND N.V.
Condensed consolidated interim statement of cash flows
For the six months ended 30 June 2019
(All amounts in euro thousands unless otherwise stated)

	Note	2019 (unaudited)	2018 (unaudited)
Cash flows from operating activities:			
Gain/(Loss) before income tax		**(7,524)**	**(2,235)**
Adjustments for:			
Depreciation and amortization	21	4,140	4,546
(Gain)/Loss from disposal and write off of inventories	21	(51)	430
Change in provision and write off of trade and other accounts receivable	21	68	(47)
Change in provision and write off of unrealised VAT	21	(65)	(12)
(Gain)/loss from write off, revaluation and disposal of non-current assets	21	5,494	738
Change in fair value of biological assets		(1)	(61)
Operational foreign exchange results, net	21	(85)	(8)
Finance income	22	(5,415)	(3,336)
Finance expenses	23	3,828	3,835
Write off of accounts payable	21	(35)	-
Operating cash flow before movements in working capital		**354**	**3,850**
(Increase)/ Decrease in trade and other accounts receivable		(127)	(997)
Decrease/(Increase) in inventories		1,638	(1,145)
(Increase)/ Decrease in biological assets		(1,153)	(860)
Increase/ (Decrease) Increase in trade and other payables		8,818	1,435
Decrease/(Increase) in other taxes receivable		(19)	(20)
Increase/ (Decrease) in other taxes payable		554	(342)
Net cash provided by/(used in) operations:		**10,065**	**1,921**
Income taxes paid		(941)	(621)
Interest received		14	21
Interest paid		(193)	(385)
Net cash provided by/(used in) operating activities		**8,945**	**936**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(554)	(383)
Proceeds from sale of property, plant and equipment	11	9	-
Acquisition of subsidiaries, net of cash acquired		-	16
Net cash used in investing activities		**(545)**	**(367)**
Cash flows from financing activities			
Proceeds from borrowings	15	197	(97)
Repayment of borrowings	15	(6,025)	(1,130)
Commission paid and fair value adjustment		-	-
Net cash (used in)/provided by financing activities		**(5,828)**	**(1,227)**
Net increase in cash and equivalents		**2,572**	**(658)**
Cash and equivalents, beginning of the period	6	**334**	**1,416**
Effect of foreign exchange rates on cash and cash equivalents		8	(12)
Cash and equivalents, end of the period	6	**2,914**	**746**

(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 2018	**3,125**	**48,687**	**(38,042)**	**79,403**	**(81,481)**	**11,692**	**1,230**	**12,922**
Profit/Loss for the period	-	-	-	-	(2,488)	**(2,488)**	(29)	**(2,517)**
Other comprehensive gain/(loss), net of tax effect	-	-	158	(25)	-	**133**	116	**249**
Total comprehensive loss for the period	**-**	**-**	**158**	**(25)**	**(2,488)**	**(2,355)**	**87**	**(2,268)**
Realised revaluation reserve, net of income tax	-	-	-	(1,888)	1,888	-	-	-
Balance at 30 June 2018	**3,125**	**48,687**	**(37,884)**	**77,490**	**(82,081)**	**9,337**	**1,317**	**10,654**
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)**

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 2019 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 29 August 2019.

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 2019, the Group employed 3,237 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 2019	31 December 2018	30 June 2018
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	100.0%	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 Moloko-Kursk	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%	100.0%
Dominic Supreme LP	Scotland	Trade	100.0%	100.0%	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 2019 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 2018, 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 2018.

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 2019. 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.

The management of the company expects the amount of payments under leasing contracts at the level of about EUR 361 thousands at the year ended 31 December 2019.

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. IAFR 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.

(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:

	USD	**UAH**	**RUB**	**PLN**
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
As at 31 December 2018	1.1450	31.7031	79.4605	4.3000
As at 30 June 2018	1.1658	30.5313	72.9921	4.3616
Average for six months ended 30 June 2018	1.2106	32.3886	71.8223	4.2213

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 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 2019 the in-house milk production covered c.24% of milk intake in Ukraine.

(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:

	2019				**2018**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	36,718	25,039	4,134	65,891	40,167	18,460	7,642	66,269
Inter-segment revenue	-	-	(11)	(11)	(11)	(11)	(95)	(117)
Revenue from external customers	36,718	25,039	4,123	65,880	40,156	18,449	7,547	66,152
EBITDA	**793**	**157**	**(809)**	**141**	**2,767**	**893**	**(96)**	**3,564**
EBITDA margin	2%	1%	-20%	0%	7%	5%	-1%	5%
Depreciation and amortisation	638	2,737	765	4,140	782	2,886	878	4,546

(All amounts in euro thousands unless otherwise stated)

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:

	2019				2018			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	19,683	31,639	14,569	65,891	24,249	32,895	9,125	66,269
Inter-segment revenue	-	-	(11)	(11)	-	-	(117)	(117)
Revenue from external customers	19,683	31,639	14,558	65,880	24,249	32,895	9,008	66,152
EBITDA	**91**	**346**	**(296)**	**141**	**1,697**	**1,779**	**88**	**3,564**
EBITDA margin	0%	1%	-2%	0%	7%	5%	1%	5%
Depreciation and amortisation	1,589	1,151	1,400	4,140	2,049	1,188	1,309	4,546

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

	2019	2018
EBITDA	**141**	3,564
Other segments EBITDA	384	(16)
Total segments	**525**	**3,548**
Depreciation and amortisation	(4,140)	(4,546)
Loss from disposal and impairment of non-current assets	(5,496)	(738)
Finance expenses	(3,828)	(3,835)
Finance income	5,415	3,336
Profit/(loss) before tax	**(7,524)**	**(2,235)**

(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 "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:

Entities under common control:	30 June 2019	31 December 2018	30 June 2018
Trade accounts receivable	50	50	49
Other financial assets	265	249	217
Other accounts receivable	1,519	1,427	2,197
Total trade and other receivables	**1,834**	**1,726**	**2,463**
Trade payables	1	-	35
Other accounts payable	200	569	1,263
Total trade and other payables	**201**	**569**	**1,298**

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2019 paid or payable to key management for employee services is EUR 85 thousand (2018: EUR 107 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 2019	31 December 2018	30 June 2018
Short term deposits	-	-	-
Cash in bank and cash on hand	2,914	334	746
Total cash and cash equivalents	**2,914**	**334**	**746**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	30 June 2019	31 December 2018	30 June 2018
Trade accounts receivable	12,931	10,325	11,938
Other financial assets	11,415	10,512	10,319
Allowance for doubtful debts	(10,890)	(10,300)	(9,752)
Total financial assets within trade and other receivables	**13,456**	**10,537**	**12,505**
Advances issued	3,577	2,040	3,875
Other receivables	22,966	7,464	8,205
Allowance for doubtful debts	(778)	(869)	(658)
Total trade and other accounts receivable	**39,221**	**19,172**	**23,927**

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 2018	30 June 2018
Raw and other materials	4,211	4,744	4,556
Finished goods and work in progress	5,230	4,919	4,812
Agriculture produce	162	415	104
Total inventories	**9,603**	**10,078**	**9,472**

9 Other taxes receivable

	30 June 2019	31 December 2018	30 June 2018
VAT recoverable	7,157	5,932	5,329
Payroll related taxes	106	80	95
Other prepaid taxes	72	105	241
Total other taxes receivable	**7,335**	**6,117**	**5,665**

(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	2019	**2018**
Balance at 1 January	1,300	1,474
Foreign currency translation	160	(46)
Balance at 30 June	**1,460**	**1,428**

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 2019 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 554 thousand (2018: EUR 383 thousand), which comprised mainly modernisation of milk processing capacities.

The Group also sold some property within the procedures of the bankruptcy of JSC “Ostankino Dairy”. The total amount of the property sold stood at c. RUB 700 million (c. EUR 9.5 million).

For the additional details please refer the section *Material Factors and Events after the Reporting Date, Selling of Ostankino assets within the bankruptcy procedures.*

(All amounts in euro thousands unless otherwise stated)

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 2019 and 2018 biological assets comprise the following groups:

	30 June 2019		30 June 2018	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	2,439	1,235	2,812	1,268
Other livestock	-	-	-	-
Total biological assets of animal breading	**2,439**	**1,235**	**2,812**	**1,268**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Other	-	1,194	-	866
Total biological assets of plant growing	**-**	**1,194**	**-**	**866**
Total current biological assets	**-**	**2,429**	**-**	**2,134**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	1,899	2,218	1,870	1,601
Other livestock	-	-	-	-
Total non-current biological assets	**1,899**	**2,218**	**1,870**	**1,601**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	30 June 2019	31 December 2018	30 June 2018
Trade payables	20,165	17,129	17,602
Accounts payable for fixed assets	27	42	13
Interest payable	23,313	20,301	17,245
Other financial payables	81	-	-
Total financial liabilities within trade and other payable	**43,586**	**37,472**	**34,860**
Wages and salaries payable	2,127	1,824	1,769
Advances received	8,451	3,858	2,815
Other accounts payable	24,825	9,865	8,554
Accruals for employees' unused vacations	1,436	952	1,005
Total trade and other payables	**80,425**	**53,971**	**49,003**

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 2019	31 December 2018	30 June 2018
VAT payable	580	130	418
Payroll related taxes	3,593	3,414	3,304
Other taxes payable	2,455	1,527	1,501
Total other taxes payable	**6,628**	**5,071**	**5,223**

15 Loans and borrowings

	30 June 2019	31 December 2018	30 June 2018
Current			
Interest bearing loans due to banks	78,332	81,843	82,001
Loans from non-financial institutions	101	-	1
Bank overdrafts	13	12	11
Finance leases	1,526	1,570	1,626
Total current borrowings	**79,972**	**83,425**	**83,639**
Non-current			
Interest bearing loans due to banks	2,139	2,497	3,814
Finance leases	102	33	79
Total non-current borrowings	**2,241**	**2,530**	**3,893**
Total borrowings	**82,213**	**85,955**	**87,532**

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

	2017	2018
Balance at 1 January	**85,955**	**86,556**
Obtained new loans and borrowings	197	(97)
Repaid loans and borrowings	(6,025)	(1,130)
Discounting of borrowings	46	303
Foreign exchange (gain)/loss	2,040	1,900
Balance at 30 June	**82,213**	**87,532**

As at 30 June 2019 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 2019 and 2018 is as follows:

	2019		2018	
	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**

(All amounts in euro thousands unless otherwise stated)

17 Revenue

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

	2019	2018
Cheese & Butter	19,683	24,249
Whole-milk products	31,639	32,895
Ingredients	14,558	9,008
Total revenue	65,880	**66,152**

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

	2019	2018
Russia	36,718	40,086
Ukraine	24,850	17,709
Poland	4,133	7,429
Other	179	928
Total revenue	65,880	**66,152**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2019	**2018**
Raw and other materials	40,767	40,643
Wages and salaries	3,900	3,947
Depreciation	3,285	3,515
Electricity	2,057	1,795
Transportation costs	1,683	1,264
Gas	1,604	2,233
Changes in finished goods and work in progress	1,133	(898)
Social insurance contributions	832	762
Repairs of property, plant and equipment	442	363
Water	109	69
Other	1,500	1,213
Total cost of sales	**57,312**	**54,906**

19 Selling and distribution expenses

	2019	**2018**
Transportation costs	2,237	2,308
Wages and salaries	1,474	1,483
Social insurance contributions	349	281
Marketing and advertising	295	168
Security and other services	184	191
Rental costs	163	113
Depreciation and amortisation	82	96
Licence fees	11	11
Other	398	369
Total selling expenses	**5,193**	**5,020**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2019	2018
Wages and salaries	2,644	2,643
Taxes and other charges	700	544
Social insurance contributions	500	458
Consulting fees	477	303
Depreciation and amortisation	351	338
Security and other services	246	211
Rental costs	184	146
Transportation costs	173	180
Repairs and maintenance	138	126
Bank charges	134	66
Representative charges	125	41
Other utilities	82	86
Communication	63	53
Property insurance	16	11
Office supplies	10	13
Other	216	332
Total administrative expenses	**6,059**	**5,551**

21 Other income/(expenses), net

	2019	2018
Operational foreign exchange results, net	85	8
Change in provision and write off of VAT receivable	65	12
Gain/(loss) from disposal and write off of inventories	51	(430)
Gain from write off of accounts payable	35	-
Rental income	7	78
Government grants recognised as income	-	-
Change in provision and write off of trade and other accounts receivable	(68)	47
Penalties	(300)	(254)
Depreciation and amortisation	(423)	(596)
Loss from revaluation of non-current assets	(734)	(1,116)
Gain/(loss) from disposal of non-current assets	(4,760)	378
Other income/(expenses), net	(386)	(599)
Total other (expenses)/income, net	**(6,428)**	**(2,472)**

22 Finance income

	2019	2018
Finance foreign exchange gain	5,301	3,253
Other fin income	114	83
Bank deposits	-	-
Total finance income	**5,415**	**3,336**

(All amounts in euro thousands unless otherwise stated)

23 Finance expenses

	2019	2018
Bank borrowings	3,113	2,969
Other borrowings	378	496
Discounting of loans	46	303
Finance foreign exchange loss	274	53
Finance leases	8	14
Other finance expense	9	-
Total finance expenses	**3,828**	**3,835**

24 Income tax

	2019	2018
Current income tax expense	(1,550)	(503)
Deferred income tax benefit	1,798	221
Total income tax expense	**248**	**(282)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2019 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2018: 18%), Russian profit tax was levied at the rate of 20% (2018: 20%), Poland profit tax was levied at the rate of 19% (2018: 19%). In 2019 the tax rate for Panama operations was 0% (2018: 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 defense 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 Syndicate 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.