Report of the Board of Directors on operations in the first half of 2015

Contents

Overview of Operations in H1 2015 and Outlook for the Year 2015

Strategy and Operations

Further deterioration of macroeconomic situation in the Group's key markets of Ukraine and Russia largely affected Milkiland's operations in H1 2015.

The deepest decline hit Ukraine, while the situation in Russian economy was stagnating.

In particular, the real GDP of Ukraine in H1 2015 dropped by 17.2% on y-o-y basis in line with a c. 21% decline in industrial output and c. 33% contraction of the Ukrainian export. In turn, Russian GGP in the reporting period declined by 3.4% on the back of a 2.7% contraction of industrial output. At the same time, the devaluation of Ukrainian and Russian national currencies has been continuing in H1 2015, when Russian rouble devalued against USD by c. 29%, Ukrainian hryvnia by c. 23%.

These trends suppressed the real income (declined by c. 24% in Ukraine and by 8.5% in Russia in comparison with H1 2014, respectively) and provoked galloping inflation, which climbed to c. 41% in Ukraine and c. 15% in Russia.

As an outcome, in H1 2015 all dairy producers in Ukraine and Russia, including Milkiland, faced the declining demand for their products in the domestic markets.

The access to the Group's main export market of Russia remained limited, since restrictions against Ukrainian dairy export, as well as food export from the EU, were not lifted by Russian authorities due to continuing tensions between Russia, Ukraine and the EU. These restrictions triggered the decline of Ukrainian dairy export to Russia by half in H1 2015.

The Group's segment revenues in the reporting period reflected the influence of the above factors, when the declining sales in volume terms were partially offset by the growing prices for finished goods, mainly in line with the inflation. The final EUR-denominated revenues were then suppressed by further devaluation of Ukrainian hryvnia and Russian rouble.

In particular, Milkiland posted 23% decline in revenues in H1 2015 in comparison with the same period of 2014 in whole-milk product segment, driven by devaluation of the Group's main operational currencies and c. 6% decrease of sales volumes.

Revenues in cheese&butter segment in the first six months of the year dropped 44% mostly on the back of the decline of cheese export sales to Russia by a half. This decline was partially compensated by a 17% increase in cheese sales in volume terms in the domestic market of Ukraine combined with c. 20% growth of sales price for this product.

Negative trends in the global dairy market, in particular low prices for dry milk products triggered by global oversupply, contributed to a 51% 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 almost 30% in H1 2015, mainly due to devaluation of the Group's main operational currencies. This factor offset the growth of raw milk prices both in Ukraine and Russia (by 18% and 6% on average in H1 2015 on y-o-y basis, respectively). At the same time, the situation with raw milk prices in Poland in the reporting period, where they declined by c. 17% year-on-year, was more favorable to the Group.

Russia remains the best performing geographical segment of the Group's business in H1 2015 thanks to the positive results of Ostankino Dairy Combine, which managed to raise its margins based on almost stable milk processing volumes and increased prices for finished goods in line with the inflation and better product mix management. As a result, the Russian business EBITDA in H1 2015 grew by c. 11% to EUR 5.3 million in comparison with the same period of 2014, while Ukrainian business EBITDA remained positive (EUR 2.6 million) and the Polish segment EBITDA was negative (- EUR 0.6 million).

The Group's key financial results in H1 2015 reflected the influence of major macroeconomic challenges faced by Ukrainian and Russian economies. Due to devaluation of Ukrainian hryvnia and Russian rouble against euro, the Group's EUR-denominated revenue decreased c. 35% y-o-y to EUR 97.7 million. Mainly under the pressure of this revenue decline, the Group's EBITDA in H1 2015 fell by 53% to EUR 6.4 million.

Dairy Markets

Good weather conditions in a number of large dairy producing regions resulted in an increasing supply of dairy products. At the same time, China cut imports nearly 40% in the first half of the year.

Russian imports (ex-Belarus and Kazakhstan) were just a fraction of the last-year volumes. In particular, Russian imports of milk powders (SMP and WMP) dropped over 6 times; cheese, 10 times; butter, 7 times on yearly basis.

Increasing global dairy supplies, weak Chinese demand and Russian ban on dairy imports from major producing countries contributed to further imbalance on the world diary market. This imbalance led to a sharp drop in dairy prices. FAO Dairy Price Index consisting of butter, SMP, WMP and cheese decreased 8% from 173.79 in January 2015 to 160.54 in June representing a 32% y-o-y decline. According to industry experts, the market is unlikely to rebalance in the short term, since the supply still exceeds the market needs.

Favorable weather conditions in Russia contributed to a 2.7% increase in milk production in the first half of 2015, despite continuing decline in the cattle headcount. According to the Russian Ministry of Agriculture, the per-cow yield improved by 6.4% y-o-y in H1 2015. The growing milk supply did not result in a price correction due to an increased demand for locally produced dairy products on the backdrop of the import ban. As a result, the farm-gate price for raw milk in Russia was c. 6% higher y-o-y.

In Ukraine, raw milk production declined by 4.5% y-o-y. This decline was triggered by decrease of milk production by households (-6% y-o-y), which still represented over 70% of the total milk output. Milk production by farms was flat. With the increasing share of more expensive ‘industrial’ milk (produced at farms as opposed to cheaper milk produced at households) and growing production costs, Ukrainian raw milk price grew 18% y-o-y in the first half of 2015.

Low domestic consumption and the civil conflict in the Eastern Ukraine led to a decline in fresh dairy sales domestically. According to Infagro, whole milk products consumption declined by 13% y-o-y.

Increased supply of more affordable domestically produced cheese led to improved cheese sales. In the first half of 2015, cheese sales grew c. 7% y-o-y. Due to limited cheese export opportunities, Milkiland switched to the domestic market, increasing its share from 6.5% in H1 2014 to 8.3% in H1 2015.

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2015 and 2014 in thousands Euro.

Selected financial data

	6 m 2015	6 m 2014
I. Revenues	97,657	149,775
II. EBITDA	6,374	13,452
III. Operating profit	370	7,011
IV. Profit (loss) before tax	(24,616)	(30,707)
V. Net profit (loss)	(24,096)	(27,260)
VI. Cash flows provided by (used in) operating activities	4,535	(3,751)
VII. Cash flows used in investing activities	(1,294)	(3,218)
VIII. Cash flows (used in) provided by financing activities	(2,916)	7,666
IX. Total net cash flow	325	697
X. Total assets	222,477	239,851
XI. Current liabilities	135,553	121,371
XII. Non-current liabilities	21,206	23,887
XIII. Share capital	3,125	3,125
XIV. Total equity	62,593	91,468
XV. Weighted average number of shares	31,250,000	31,250,000
XVI. Profit (loss) per ordinary share, EUR cents	(76.38)	(85.58)

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2015	6 m 2014
Revenue	97,657	149,775
Change in fair value of biological assets	277	(193)
Cost of sales	(81,980)	(117,462)
Gross profit	**15,954**	**32,120**
Operating income (expense), net	(15,584)	(25,109)
Operating profit	**370**	**7,011**
Net finance expense and other non-operating income (expense)	(24,986)	(37,718)
Profit (loss) before tax	**(24,616)**	**(30,707)**
Income tax (expense) benefit	520	3,447
Net profit (loss)	**(24,096)**	**(27,260)**
Other comprehensive income (loss)	(4,779)	(23,879)
Total comprehensive income	**(28,875)**	**(51,139)**
Net profit (loss) attributable to equity holders of the parent company	**(23,870)**	**(26,743)**
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR)	**(76.38)**	**(85.58)**

Revenue

On the back of the Ukrainian hryvnia and Russian rouble devaluation against euro in the first half of 2015 and limited exports, the Group's EUR-denominated revenue decreased c. 35% y-o-y to EUR 97.7 million.

Restrictions imposed by Russia on imports from Ukraine continued to negatively affect cheese&butter segment performance in the first six months of the year. In volume terms, cheese sales in Russia halved, mostly limited to the domestic Rylsk production. Cheese exports to countries other than Russia grew 5%, while Ukrainian domestic sales increased by 17%. An over 20% rise in Ukrainian prices for cheese failed to compensate for the devaluation of the Ukrainian hryvnia. As a result, despite a considerable rise in the cheese sales in Ukraine, segment revenue dropped 44% from EUR 54.7 million to EUR 30.8 million.

WMP segment demonstrated a 23% drop in revenue, fueled mostly by the devaluation of the Group's key operational currencies. Negative trends in the global dairy market contributed to a 51% drop in the Ingredients segment. For more information on the above changes, please refer to section *Overview of Operations in H1 2015 and Outlook for the Year 2015*.

Breakdown of the Group's consolidated revenue by product in H1 2015 and H1 2014

	2015		2014		2015 vs. 2014	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	30,843	32%	54,735	37%	(23,892)	-44%
Whole milk products	56,035	57%	73,099	49%	(17,064)	-23%
Ingredients and other	10,779	11%	21,941	15%	(11,162)	-51%
Total	**97,657**	**100%**	**149,775**	**100%**	**(52,118)**	**-35%**

In the total revenue, cheese and butter sales accounted for 32%, whole milk products for 57% (37% and 49% respectively in the first half of 2014).

Cost of sales and Gross profit

Cost of sales declined by 30% to EUR 82 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 (+6% y-o-y) and Ukraine (by 18%).

Despite growing raw milk prices, such devaluation led to a 29% 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 78% in H1 2014 to 80% in H1 2015. 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 38%. Decrease in transportation costs (48%) 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 2015-2014, '000 EUR and %

	2015		2014	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	65,225	80%	91,490	78%
Wages and salaries	4,045	5%	6,515	6%
Depreciation	5,126	6%	5,211	4%
Transportation costs	2,046	2%	3,914	3%
Gas	2,621	3%	4,312	4%
Other	2,917	4%	6,020	5%
Total	**81,980**	**100%**	**117,462**	**100%**

The Group's gross profit decreased by 50% to EUR 16 million due to a drop in revenue, with the gross margin of 16% against 21% in the first half of 2014.

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 2015 resulted in a decrease in the Group's EBITDA by 53% to EUR 6.4 million, EBITDA margin constituted 6.5% in H1 2015 vs. 9.0% in H1 2014.

Selling and distribution expenses and administrative expenses dropped 32% and 40% respectively on the back of operating currency devaluation.

Transportation expenses as part of the selling and distribution expenses decreased by 27% due to Russian rouble devaluation. A EUR 1.1 million drop (or by 72% y-o-y) in the security and other services was due to a cut of cheese exports from Ukraine to Russia and thus a decrease in thereof-related services.

In administrative expenses, labor costs dropped EUR 1.9 million due to the devaluation reasons. In the first half of 2015, consulting fees decreased by EUR 1.0 million (or by 67% y-o-y) due to cost cutting introduced by the Group's management.

Other operation income net was EUR 0.5 million in H1 2015 in comparison with an operation expense of EUR 0.1 million in H1 2014.

Profit before tax and Net profit

In the first half of 2015, financial expense related to bank borrowings grew 20% because of an increase in interest rates in the countries of operations. The devaluation of Ukrainian hryvnia and Russian rouble against euro and US dollar resulted in a non-cash foreign exchange loss of EUR 19.8 million (compared to EUR 33.4 million in H1 2014).

As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 24.6 million. Net loss for the first half of 2015 accounted for EUR 24.1 million.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2015	December 31, 2014	June 30, 2014
Cash and cash equivalents	10,154	10,431	12,452
Trade and other receivables	51,784	50,615	62,020
Inventories	18,055	17,779	25,658
Other current assets	11,480	12,809	19,776
Total current assets	**91,473**	**91,634**	**119,906**
PPE	119,420	135,401	141,919
Deferred income tax assets	5,785	6,366	5,851
Other non-current assets	5,799	6,450	8,365
Total non-current assets	**131,004**	**148,217**	**156,135**
Total assets	**222,477**	**239,851**	**276,041**
Trade and other payables	32,140	22,535	23,729
Short-term loans and borrowings	100,639	96,389	93,853
Other current liabilities	2,774	2,447	1,974
Total current liabilities	**135,553**	**121,371**	**119,556**
Loans and borrowings	4,872	5,531	16,194
Deferred income tax liability	16,044	18,005	15,508
Other non-current liabilities	290	351	486
Total non-current liabilities	**21,206**	**23,887**	**32,188**
Total liabilities	**156,759**	**145,258**	**151,744**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	64,551	71,344	54,502
Retained earnings	(3,676)	17,676	63,666
Total equity attributable to equity holders of the parent company	**64,000**	**92,145**	**121,293**
Non-controlling interests	1,718	2,448	3,004
Total equity	**65,718**	**94,593**	**124,297**
Total liabilities and equity	**222,477**	**239,851**	**276,041**

Assets

Due to the Ukrainian hryvnia and Russian rouble devaluation in the first half of 2015, The Group's EUR-denominated assets decreased. While current assets were flat (EUR 91.6 million as of December 31, 2014 to EUR 91.5 million as of June 30, 2015), non-current assets decreased by 12% resulting in a 7% decline in the total assets.

A decrease in other taxes receivable by 25% represent a decrease in VAT recoverable due to lower exports from Ukraine.

Trade and other receivables grew by 2% with trade accounts receivable 3% higher than on December 31, 2014.

Since most of the Group's production assets are located in Ukraine, UAH devaluation resulted in a 12% decrease in PPE.

Liabilities and equity

Total liabilities increased by 8% resulting from a 12% growth in current liabilities. Non-current liabilities decreased by 11%. Long-term borrowings fell 12% to EUR 4.9 million. The Group's loan portfolio grew as a result of foreign exchange differences. During the first half of 2015, the Group repaid EUR 22.3 million and attracted EUR 19.3 million of loans.

As a result of the above movements, during the first six months of 2015 the net debt of the Group grew 4% and stood at EUR 95.4 million as of June 30, 2015 (EUR 91.5 million as of December 31, 2014). Total Debt Ratio constituted 0.70 vs. 0.61 on June 30, 2015 and December 31, 2014.

The Group's total equity decreased by 31% to EUR 65.7 million on the back of a retained loss due to FX loss, as well as reduced non-controlling interest. Net debt/equity ratio was 0.1.45 as of June 30, 2015 vs. 0.97 as of December 31, 2014.

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

Financing arrangements

Restructuring of the Loan Facility by a Syndicate of international Banks

Since the beginning of 2015, the Group has been continuing the negotiations with a syndicate of international banks in order to sign a Standstill agreement with the banks representing the syndicate.

The total sum of the Group's indebtedness to syndicate as of 30 June 2015 stood at USD 58.6 million, including an overdue amount of USD 41.6 million in respect of a Syndicate of international Banks loan.

Restructuring of the Loan facility by Credit Agricole Bank

On June 26, 2015, Milkiland Ukraine, the Group's Ukrainian subsidiary, signed amendments to the Loan Facility Agreement with Credit Agricole Bank. Under the amended agreement, payment terms for the principal amount were revised.

The total sum of the Group's indebtedness to Credit Agricole Bank as of 30 June 2015 stood at USD 14.5 million.

Changes in the Board of Directors

The Annual General Meeting of Shareholders of the Company held on June 19, 2015, decided to:

(a) 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 2019 with the remuneration in accordance with the remuneration policy of the Company;

(b) Re-appoint Ms. Olga Yurkevich as an executive member of the Board of Directors, Chief Production 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 2019 with the remuneration 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 2016 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 2016 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 2016 with the remuneration in accordance with the remuneration policy of the Company.

Material Factors and Events after the Reporting Date

The imposture of sanctions against food imports from the Western economies by Russian Federation

On August 5, 2015, Russia prolonged a "full embargo" on food imports from the EU, US and some other Western countries, in response to sanctions over Ukraine for one year, until August 6, 2016. These sanctions include fruit, vegetables, meat, fish, milk and dairy imports. The European Commission said the Russian embargo was "clearly politically motivated".

Changes in shareholding in Milkiland N.V.

On July 27, 2015, the Board of Directors of Milkiland N.V. received from ING Otwarty Fundusz Emerytalny ("ING OFE"), with its registered seat in Warsaw, Poland, the notification dated 14 July 2015 on decline of holding of shares of Milkiland N.V. below the threshold of 5% of the total number of votes at the general meeting of the Company due to the selling transactions made on 08 July, 2015.

On July 28, 2015, ING OFE holds 1,505,845 (one million five hundred and five thousand eight hundred and forty-five) shares of the Company that constitutes 4.82% of the Company's share capital and correspond to 1,505,845 (one million five hundred and five thousand eight hundred and forty-five) votes or 4.82% of the voting rights on the General Meeting of Shareholders. Before the transaction ING OFE held 1,579,656 (one million five hundred and seventy-nine thousand six hundred and fifty-six) shares of the Company that constituted 5.05% of Company's share capital and corresponded to 1,579,656 (one million five hundred and seventy-nine thousand six hundred and fifty-six) votes or 5.05% of the voting rights on the General Meeting of Shareholders.

Activities aimed at the restructuring of the Loan Facility by a Syndicate of Banks

On August 17, 2015, Milkiland N.V. entered into the Professional Services Agreement with Deloitte & Touche Ltd., a member firm of Deloitte Touche Tohmatsu Limited. The Agreement envisages the provision by Deloitte & Touche Ltd. of Company's Business Review and review of short-term liquidity forecast.

These services will be performed in order to enable Milkiland N.V.to consider, negotiate and agree with its main creditors, namely, UniCredit Bank Austria AG and AO Raiffeisenbank, a scheme of the restructuring of debt under Syndicated Loan Facility Agreement provided by these banks.

Appointment of a new CEO of Milkiland Ukraine

On 19 August, 2015, Mrs. Maria Chumak was appointed at the position of the CEO of Milkiland Ukraine, a subsidiary of the Company which controls the Milkiland Group assets in Ukraine.

Mrs. Chumak has an extensive experience as a top-manager at Ukrainian retail chains. From 2009 to 2012 she held the position of HR Director of Krai-2 Ltd., member of Kraina Group Ltd.

In 2012-2015 she occupied the same position at the Ukrainian retailer Eko-market. At these positions she was engaged in the formation and implementation of HR-strategy, human resource management, and motivation systems. Currently, she is responsible for strategic business development of Milkiland Ukraine in the Ukrainian and export markets.

Mrs. Chumak graduated from Kiev National Trade and Economic University in 2003 and holds a master degree in foreign trade relations.

Strategic Plans and Initiatives for H2 2015

The Group's management plan to further implement in the second half of 2015 the strategic plans and initiatives aimed at the capitalization on the international model of the Group's business, including seeking a 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:

Production:

- Increase of capacity utilization of Syrodel cheese making plant in Rylsk by c. 20% in order to develop a localization of cheese production in Russia 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 and Central Asia countries.
- Seek for new business opportunities in Middle East and MENA countries.

Sales and marketing:

- To 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.
- To promote a Group's flagman cheese type King Arthur under Dobryana brand in the Polish market.
- To promote the high values added dairy products under Ostankino's new brands Zhivo, Tselnoskvasheno in the Russian 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 2015 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 2015 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, 28 August 2015

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 2015

Contents

MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the six months ended 30 June 2015
(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2015 (unaudited)	31 December 2014 (audited)	30 June 2014 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	10,154	10,431	12,452
Trade and other receivables	7	51,784	50,615	62,020
Inventories	8	18,055	17,779	25,658
Current biological assets	12	2,868	1,901	5,160
Current income tax assets		751	367	630
Other taxes receivable	9	7,861	10,541	13,986
		91,473	**91,634**	**119,906**
Non-Current Assets				
Goodwill	10	2,160	2,147	2,971
Property, plant and equipment	11	119,420	135,401	141,919
Non-current biological assets	12	1,704	2,017	2,640
Other intangible assets	11	1,935	2,286	2,754
Deferred income tax assets		5,785	6,366	5,851
		131,004	**148,217**	**156,135**
TOTAL ASSETS		**222,477**	**239,851**	**276,041**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	32,140	22,535	23,729
Current income tax liabilities		72	384	80
Other taxes payable	14	2,702	2,063	1,894
Short-term loans and borrowings		100,639	96,389	93,853
		135,553	**121,371**	**119,556**
Non-Current Liabilities				
Loans and borrowings	15	4,872	5,531	16,194
Deferred income tax liability		16,044	18,005	15,508
Other non-current liabilities		290	351	486
		21,206	**23,887**	**32,188**
Total liabilities		**156,759**	**145,258**	**151,744**
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		65,984	68,502	46,393
Currency translation reserve		(50,120)	(45,845)	(40,578)
Retained earnings		(3,676)	17,676	63,666
		64,000	**92,145**	**121,293**
Non-controlling interests		**1,718**	2,448	**3,004**
Total equity		**65,718**	**94,593**	**124,297**
TOTAL LIABILITIES AND EQUITY		**222,477**	**239,851**	**276,041**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2015
(All amounts in euro thousands unless otherwise stated)

	Notes	2015 (unaudited)	2014 (unaudited)
Revenue	17	97,657	149,775
Change in fair value of biological assets		277	(193)
Cost of sales	18	(81,863)	(117,462)
Gross Profit		**16,071**	**32,120**
Selling and distribution expenses	19	(8,350)	(12,274)
Administrative expenses	20	(7,215)	(12,754)
Other expenses, net	21	(136)	(81)
Operating Profit		**370**	**7,011**
Finance income	22	1,039	1,345
Finance expenses	23	(26,025)	(39,063)
Loss before tax		**(24,616)**	**(30,707)**
Income tax	24	520	3,447
Net loss for the period		**(24,096)**	**(27,260)**
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(4,779)	(23,879)
Total comprehensive loss		**(28,875)**	**(51,139)**
Loss attributable to:			
Owners of the Company		(23,870)	(26,743)
Non-controlling interests		(226)	(517)
		(24,096)	**(27,260)**
Total comprehensive loss:			
Owners of the Company		(28,145)	(49,044)
Non-controlling interests		(730)	(2,095)
		(28,875)	**(51,139)**
Earnings per share		(76.38)	(85.58)

(All amounts in euro thousands unless otherwise stated)

	Note	2015 (unaudited)	2014 (unaudited)
Cash flows from operating activities:			
Loss before income tax		**(24,616)**	**(30,707)**
Adjustments for:			
Depreciation and amortization	11	6,004	6,332
Loss from disposal and write off of inventories	21	277	520
Change in provision and write off of trade and other accounts receivable	21	264	340
Change in provision and write off of unrealised VAT	21	(94)	752
(Income)/Loss from write off and disposal of non-current assets	21	(105)	109
Change in fair value of biological assets		(277)	193
Operational foreign exchange results, net	21	228	(1,303)
Finance income	22	(1,039)	(1,345)
Finance expenses	23	26,025	39,063
Write off of accounts payable	21	(2)	(6)
Operating cash flow before movements in working capital		**6,665**	**13,948**
Increase in trade and other accounts receivable		(3,078)	(1,333)
Increase in inventories		(1,085)	(2,345)
Increase in biological assets		(1,105)	(47)
Increase/(Decrease) in trade and other payables		7,182	(4,660)
Decrease/(Increase) in other taxes receivable		1,265	(2,480)
Increase/(Decrease) in other taxes payable		639	(377)
Net cash provided by operations:		**10,483**	**2,706**
Income taxes paid		(1,427)	(2,059)
Interest received		448	783
Interest paid		(4,969)	(5,181)
Net cash provided by/(used in) operating activities		**4,535**	**(3,751)**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(1,294)	(3,218)
Net cash used in investing activities		**(1,294)**	**(3,218)**
Cash flows from financing activities			
Proceeds from borrowings	15	19,346	51,975
Repayment of borrowings	15	(22,260)	(44,273)
Commission paid and fair value adjustment		(2)	(36)
Net cash (used in)/ provided by financing activities		**(2,916)**	**7,666**
Net increase in cash and equivalents		**325**	**697**
Cash and equivalents, beginning of the period	6	**10,431**	**13,056**
Effect of foreign exchange rates on cash and cash equivalents		(602)	(1,301)
Cash and equivalents, end of the period	6	**10,154**	**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 2014	**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**	**5,099**	**175,436**
Loss for the period	-	-	-	-	(26,743)	**(26,743)**	(517)	**(27,260)**
Other comprehensive loss, net of tax effect	-	-	(22,301)	-	-	**(22,301)**	(1,578)	**(23,879)**
Total comprehensive loss for the period	**-**	**-**	**(22,301)**	**-**	**(26,743)**	**(49,044)**	**(2,095)**	**(51,139)**
Realised revaluation reserve, net of income tax	-	-	-	(2,359)	2,359	**-**	-	**-**
Balance at 30 June 2014	**3,125**	**48,687**	**(40,578)**	**46,393**	**63,666**	**121,293**	**3,004**	**124,297**
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**

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 2015 for Milkiland N.V. (the “Company”) and its subsidiaries (together referred to as the “Group” or “Milkiland”).

The financial statements were approved by the Board of Directors on 28 August 2015.

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 31 December 2015 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.

(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	Effective share of ownership 30 June 2015	 31 December 2014	 30 June 2014
MLK Finance Limited	Cyprus	100.0%	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	100.0%	100.0%	100.0%
Milkiland Corporation	Panama	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%	100.0%
Ostrowia 10 sp. z.o.o	Poland	100.0%	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	100.0%	100.0%	100.0%
LLC Milkiland RU	Russia	100.0%	100.0%	100.0%
LLC Kursk-Moloko	Russia	100.0%	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%	100.0%
DE Aromat	Ukraine	100.0%	100.0%	100.0%
PE Prometey	Ukraine	100.0%	100.0%	100.0%
PE Ros	Ukraine	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%	76,0%
PrJSC Gorodnia Milk Plant	Ukraine	72,3%	72,3%	72,3%
LLC Agrosvit	Ukraine	100.0%	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%	100.0%
PrJSC Transportnyk	Ukraine	100.0%	100.0%	70,3%
LLC Milkiland Agro	Ukraine	100.0%	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%	100.0%
PJSC Iskra	Ukraine	70.8%	70.8%	70.8%
DE Agrolight	Ukraine	100.0%	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	100.0%	100.0%	100.0%
LLC Bachmachregionpostach	Ukraine	100.0%	100.0%	100.0%
LLC Avtek Rent Service	Ukraine	100.0%	100.0%	100.0%
AF Konotopska	Ukraine	100.0%	100.0%	100.0%
ALLC Nadiya	Ukraine	100.0%	100.0%	100.0%
LLC Feskivske	Ukraine	100.0%	100.0%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	97.5%	97.0%	97.0%
LLC Agro-Mena	Ukraine	100.0%	100%	-
LLC Iskra-Sloboda	Ukraine	100.0%	100%	-

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the six months ended 31 June 2015 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 2014, 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 2014.

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 2015 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 2015, 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 2015 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 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
As at 31 December 2014	1.2141	19.1446	68.3681	4.2623
As at 30 June 2014	1.3658	16.1483	45.8251	4.1609
Average for six months ended 30 June 2014	1.3707	14.0966	47.9875	4.1757

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:

	2015				**2014**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	59,245	30,375	8,456	98,076	81,601	76,767	13,711	172,079
Inter-segment revenue	-	-	(419)	(419)	(391)	(17,794)	(4,119)	(22,304)
Revenue from external customers	59,245	30,375	8,037	97,657	81,210	58,973	9,592	149,775
EBITDA	**5,315**	**2,570**	**(627)**	**7,258**	**4,779**	**10,384**	**(487)**	**14,676**
EBITDA margin	9%	8%	(8%)	7%	6%	18%	(5%)	10%
Depreciation and amortisation	1,480	3,513	1,011	6,004	1,451	3,921	960	6,332

(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:

	2015				**2014**			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	31,241	56,035	10,800	98,076	75,088	73,099	23,892	172,079
Inter-segment revenue	(398)	-	(21)	(419)	(20,353)	-	(1,951)	(22,304)
Revenue from external customers	30,843	56,035	10,779	97,657	54,735	73,099	21,941	149,775
EBITDA	**1,955**	**5,721**	**(418)**	**7,258**	**6,461**	**6,120**	**2,095**	**14,676**
EBITDA margin	6%	10%	(4%)	7%	12%	8%	10%	10%
Depreciation and amortisation	2,262	2,280	1,462	6,004	2,752	2,643	937	6,332

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

	2015	**2014**
EBITDA	7,258	14,676
Other segments EBITDA	(884)	(1,224)
Total segments	**6,374**	**13,452**
Depreciation and amortisation	(6,004)	(6,332)
Non-recurring items	(105)	-
Loss from disposal and impairment of non-current assets	105	(109)
Finance expenses	(26,025)	(39,063)
Finance income	1,039	1,345
Loss before tax	**(24,616)**	**(30,707)**

(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:	**2015**	**2014**
Revenue	228	816

The outstanding balances due from related parties were as follows:

Entities under common control:	**30 June 2015**	**31 December 2014**	**30 June 2014**
Trade accounts receivable	5,066	5,708	5,043
Other financial assets	19,244	17,733	15,234
Other accounts receivable	313	261	166

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2015 paid or payable to key management for employee services is EUR 343 thousand (2014: EUR 340 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 2015	**31 December 2014**	**30 June 2014**
Short term deposits	8,388	9,000	9,462
Cash in bank and cash on hand	1,766	1,431	2,990
Total cash and cash equivalents	**10,154**	**10,431**	**12,452**

As at 30 June 2015 short term deposits of EUR 8,348 thousand were placed in PJSC UKRAINIAN PROFESSIONAL BANK into which temporary administration was introduced for 3 months from 29 May 2015 to 28 August 2015 inclusive. No provision was charged on the abovementioned deposits as at 30 June 2015.

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	30 June 2015	**31 December 2014**	**30 June 2014**
Trade accounts receivable	23,857	24,163	31,651
Other financial assets	19,670	17,910	15,751
Allowance for doubtful debts	(2,526)	(2,439)	(970)
Total financial assets within trade and other receivables	***41,001***	**39,634**	***46,432***
Advances issued	9,372	9,097	13,281
Other receivables	2,116	2,507	3,485
Allowance for doubtful debts	(705)	(623)	(1,178)
Total trade and other accounts receivable	**51,784**	**50,615**	**62,020**

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 2015	**31 December 2014**	**30 June 2014**
Raw and other materials	6,515	8,296	7,709
Finished goods and work in progress	11,198	8,880	17,027
Agriculture produce	342	603	922
Total inventories	**18,055**	**17,779**	**25,658**

9 Other taxes receivable

	30 June 2015	**31 December 2014**	**30 June 2014**
VAT recoverable	7,749	10,429	13,604
Payroll related taxes	98	102	104
Other prepaid taxes	14	10	278
Total other taxes receivable	**7,861**	**10,541**	**13,986**

VAT receivable as at 30 June 2015 is shown net of provision at the amount of EUR 348 thousand (31 December 2014: EUR 667 thousand; 30 June 2014: EUR 818 thousand). The provision for VAT is created for part of VAT balances due to complexity of reimbursement of VAT in Ukraine and is estimated at 25% (31 December 2014: 25%; 30 June 2014: 25%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	2015	**2014**
Balance at 1 January	2,147	3,426
Foreign currency translation	13	(455)
Balance at 30 June	**2,160**	**2,971**

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 2015 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 1,294 thousand (2014: EUR 3,218 thousand), which comprised mainly modernisation of milk processing capacities.

(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 2015, 2014 and 31 December 2014 biological assets comprise the following groups:

	30 June 2015		**31 December 2014**		**30 June 2014**	
Current biological assets of animal breading	Units	Amount	Units	Amount	Units	Amount
Cattle	4,851	1,886	4,633	1,797	3,552	1,520
Other livestock	-	1	-	9	-	564
Total biological assets of animal breading	**4,851**	**1,887**	**4,633**	**1,806**	**3,552**	**2,084**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount	Hectares	Amount
Wheat	-	-	-	-	3,423	1,609
Maize	-	-	-	-	200	131
Barley	1,060	190	-	-	1,018	293
Other	-	791	-	95		1,044
Total biological assets of plant growing	**-**	**981**	**-**	**95**	**4,641**	**3,077**
Total current biological assets	**-**	**2,868**	**-**	**1,901**	**-**	**5,160**
Non-current biological assets	Units	Amount	Units	Amount	Units	Amount
Cattle	2,690	1,702	2,718	2,011	3,386	2,640
Other livestock	-	2	-	6	-	-
Total non-current biological assets	**2,690**	**1,704**	**2,718**	**2,017**	**3,386**	**2,640**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	30 June 2015	31 December 2014	30 June 2014
Trade payables	22,840	16,456	18,112
Accounts payable for fixed assets	18	120	85
Interest payable	2,372	1,010	135
Other financial payables	174	158	117
Total financial liabilities within trade and other payable	**25,404**	**17,744**	**18,449**
Wages and salaries payable	2,234	1,980	2,040
Advances received	2,088	668	904
Other accounts payable	701	588	300
Accruals for employees' unused vacations	1,713	1,555	2,036
Total trade and other payables	**32,140**	**22,535**	23,729

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 2015	31 December 2014	30 June 2014
VAT payable	1,454	1,011	581
Payroll related taxes	1,079	922	1,140
Other taxes payable	169	130	173
Total other taxes payable	**2,702**	**2,063**	**1,894**

(All amounts in euro thousands unless otherwise stated)

15 Loans and borrowings

	30 June 2015	31 December 2014	30 June 2014
Current			
Interest bearing loans due to banks	99,264	95,206	92,901
Loans from non-financial institutions	20	14	-
Bank overdrafts	362	469	463
Finance leases	993	700	489
Total current borrowings	**100,639**	**96,389**	**93,853**
Non-current			
Interest bearing loans due to banks	3,593	4,028	14,381
Finance leases	1,279	1,503	1,813
Total non-current borrowings	**4,872**	**5,531**	**16,194**
Total borrowings	**105,511**	**101,920**	**110,047**

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

	2015	2014
Balance at 1 January	**101,906**	**103,759**
Obtained new loans and borrowings	19,344	51,939
Repaid loans and borrowings	(22,260)	(44,273)
Discounting of borrowings	-	484
Foreign exchange (gain)/loss	6,521	(1,862)
Balance at 30 June	**105,511**	**110,047**

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 June 2015 and 31 December 2014 were as follows:

	30 June 2015					31 December 2014				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	75,411	6,363	15,243	3,622	**100,639**	60,197	3,700	26,645	3,311	**93,853**
Average interest rate, %	9.63	24.34	19.82	4.58	**11.92**	10.28	20.35	9.12	4.43	**10.14**
1-5 years										
Outstanding balance, thousand EUR	3,593	2	57	1,220	**4,872**	14,381	6	-	1,807	**16,194**
Average interest rate, %	8.25	24.00	4.43	5.61	**7.55**	9.88	24.00	n/a	5.61	**9.41**

15 Loans and borrowings (Continued)

As at 30 June 2015 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 negotiated 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:

	2015		2014	
	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:

	2015	2014
Cheese & Butter	30,843	54,734
Whole-milk products	56,035	73,099
Ingredients	10,779	21,942
Total revenue	**97,657**	**149,775**

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

	2015	2014
Russia	59,245	94,467
Ukraine	26,099	37,472
Poland	8,052	9,592
Other	4,261	8,244
Total revenue	**97,657**	**149,775**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2015	2014
Raw and other materials	65,108	91,488
Wages and salaries	4,045	6,515
Depreciation	5,126	5,211
Transportation costs	2,046	3,914
Gas	2,621	4,312
Electricity	2,086	2,835
Social insurance contributions	1,291	2,179
Repairs of property, plant and equipment	1,343	1,728
Water	159	540
Other	1,635	2,423
Changes in finished goods and work in progress	(3,597)	(3,683)
Total cost of sales	**81,863**	**117,462**

19 Selling and distribution expenses

	2015	2014
Transportation costs	3,689	5,196
Security and other services	414	1,480
Marketing and advertising	1,003	885
Wages and salaries	2,016	2,839
Social insurance contributions	622	829
Licence fees	26	213
Rental costs	128	217
Depreciation and amortisation	127	170
Other	325	445
Total selling expenses	**8,350**	**12,274**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2015	2014
Wages and salaries	3,252	5,363
Social insurance contributions	760	1,298
Taxes and other charges	586	702
Representative charges	124	423
Other utilities	70	100
Bank charges	142	810
Repairs and maintenance	158	227
Depreciation and amortisation	699	829
Consulting fees	344	1,515
Security and other services	222	270
Transportation costs	203	206
Property insurance	23	47
Rental costs	151	205
Communication	101	158
Office supplies	25	55
Other	355	546
Total administrative expenses	**7,215**	**12,754**

21 Other expenses, net

	2015	2014
Government grants recognised as income	175	413
Gain from write off of accounts payable	2	6
Change in provision and write off of trade and other accounts receivable	(264)	(340)
Depreciation and amortisation	(51)	(135)
Other income, net	276	283
Loss from disposal of non-current assets	105	(109)
Loss from disposal and write off of inventories	(277)	(520)
Penalties	(102)	(230)
Operational foreign exchange results, net	(94)	1,303
Change in provision and write off of VAT receivable	94	(752)
Total other expenses, net	**(136)**	**(81)**

(All amounts in euro thousands unless otherwise stated)

22 Finance income

	2015	**2014**
Other finance income	-	3
Finance foreign exchange gain, net	717	834
Bank deposits	322	508
Total finance income	**1,039**	**1,345**

23 Finance expenses

	2015	**2014**
Bank borrowings	6,076	5,055
Other finance expenses	107	35
Finance leases	60	93
Discounting of loans	-	484
Finance foreign exchange loss, net	19,782	33,396
Total finance expenses	**26,025**	**39,063**

24 Income tax

	2015	**2014**
Current income tax	878	1,348
Deferred income tax	(1,398)	(4,795)
Total income tax	**(520)**	**(3,447)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2015 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2014: 18%), Russian profit tax was levied at the rate of 20% (2014: 20%), Poland profit tax was levied at the rate of 19% (2014: 19%). In 2014 the tax rate for Panama operations was 0% (2014: 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 2,148 thousand as at 30 June 2015. 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 3,659 thousand as at 30 June 2015.

As at 30 June 2015 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 28 October 2015. This case was created due to the procedure for liquidation of PJSC "Bank Forum" and unwillingness of the Temporary Administration to settle the debt out-of-court.

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 favor 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 2015 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 2015 and 30 June 2014, 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 2015 no changes were made in objectives, policies and procedures of the capital management.

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 2015 in amount EUR 52,355 thousand:

- 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.

As at 30 June 2015 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 28). 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 2015, the full value of loan in amount EUR 52,355 thousand (USD 58,580 thousand in original currency) is classified as current interest bearing loans due to banks (note 15).

27 Earnings per share

	2015	2014
Numerator		
Earnings used in basic and diluted EPS	**(23,870)**	**(26,743)**
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	**31,250**	**31,250**

28 Subsequent events

Since the beginning of 3rd quarter 2015 the Group has been continuing the negotiations with a syndicate of international banks in order to sign a Standstill agreement with the banks representing the syndicate. Management expect to sign the Standstill agreement by the end of September 2015 with following negotiation and signing of long-term restructuring agreement.

Also since the beginning of 3rd quarter 2015 the Group has been in negotiations with several other lenders with aim to agree restructure of Group borrowings.