Report of the Board of Directors on operations in the first half of 2018

Contents

Overview of Operations in H1 2018 and Outlook for the Year 2018

Strategy and Operations

First half of 2018 became a period of further improve in macroeconomic environment in the key markets of the Group in Russia and Ukraine, after the restoration of the growth trends in the national economies of those countries in 2017.

In particular, Russian authorities penciled 1.3% increase of GDP in Q1 2018, while in Q2 this growth accelerated to 1.8%, mainly on the back of growing adding value in the processing sectors of the economy. At the same time, the real GDP of Ukraine in Q1 2018 grew by 3.1% on y-o-y basis, fueling by the improved output of industrial sector, as well as growing wholesale and retail trade turnover. In Q2 2018 the growth accelerated to 3.6% on y-o-y basis.

In H1 2018 the national currencies of Russia and Ukraine devalued gradually against EUR, the Group's reporting currency. While Ukrainian hryvnia devalued against EUR by c. 12% in H1 2018 on average in the comparison with the same period of 2017, Russian rouble devalued against European currency by c. 14.5% on average on y-o-y basis.

Positively, both economies posted single-digit inflation rates, in particular, CPI in Russia in H1 2018 stood at low 2%, in Ukraine – at 4.4%.

These positive trends had an effect at the real disposable income and purchasing power of population of those countries. In H1 2018 real disposal income of Russians grew by 2.6% on y-o-y basis, while Ukrainians enjoyed by the double-digit growth of this indicator by 10% in Q1 2018. As the result, the retail trade turnover in Russia in H1 2018 increased by 2.6%, in Ukraine – by 6.2% on y-o-y basis. Consequently, the dairy producers in Russia and Ukraine conducted their business in the situation, when first time since 2014 the demand for their goods began to restore.

Positive macroeconomic background in H1 2018 existed for the Group's operations in Polish market. In Q1 2018 the GDP of Poland grew by 5.2%, mainly supported by the growth of the industrial output, with the continuation of this positive trend in Q2 2018.

Milkiland in H1 2018 managed to catch the opportunity to increase its dairy sales in the key markets of its operations, first of all, in Cheese&butter business segment. At the same time, stagnation of the real income of population in the previous years led to the shift of the customers habits towards cheaper dairy products, which also influenced at the dairy producers margins.

Revenues in Cheese&butter segment in the first six months of 2018 increased by c. 17% in comparison with the same period of 2017 to EUR 24.2 million on the back of higher sales volumes of those products. In particular, Milkiland EU increased cheese sales in European market, Milkiland RU achieved the growth of sales of this product in Russia, while Milkiland Intermarket subsidiary boosted the international sales of cheese. At the same time, due to the shift in products matrix towards less expensive cheese products and B2B types of cheese, in the reporting period EBITDA of the above-mentioned segment declined by c. 52% to EUR 1.7 million in comparison with H1 2017.

In H1 2018 Milkiland posted c. 17% decline in revenues in Whole-milk product segment in comparison with the same period of 2017 to c. EUR 33 million, mainly driven by decrease the sales volumes in Russia. The profitability of the segment in EBITDA terms in the reporting period stood practically at the same level of c. 5% as in H1 2017.

The revenue in Ingredients segment decreased in H1 2018 on y-o-y basis to c. EUR 9 million or by c. 35% based at lower pricing of these products sales in the global market. The EBITDA margin stood at low c. 1% level. For more information on the situation on global dairy markets, please refer to section *Dairy Markets*.

In H1 2018 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 butter in Israel, additional volumes of butter were sold to European traders. As the result, the butter sales volumes grew by two and a half times in H1 2018 in comparison with the same period of 2017, with the same growth rate of the respective revenues. In addition to higher butter sales, Milkiland Intermarket also focused on developing of the distribution network of dry milk products in China. Specially produced B2B types of cheese in H1 2018 were supplied by Milkiland EU to Serbia, Romania and Italy.

Returning to the core markets of the Group operations, in H1 2018 Milkiland increased its overall sales volumes, especially of cheese by 1.6 times, butter – by 1.5 times, maintaining the sales volumes of whole-milk and dry milk products, by catching the wave of restauration of the customers confidence.

In the reporting period, Russian segment of the Group's business faced a situation of lower volume sales, as well as lower production costs, latter on the back of lower prices for raw milk and devaluation of the national currency (raw milk prices were by c. 5% on average lower than in H1 2017, while RUB devalued by 14.5% against EUR on average in the comparison with the same period of last year).

As the result, Ostankino's revenue in H1 2018 in comparison with the same period of the last year decreased by 16% to c. EUR 31 million, while EBITDA slid by c. 40% to c. EUR 1.9 million.

Milkiland RU continued the localization of cheese production at its subsidiary in Rylsk. Due to 20% growth of sales of this product in volume terms, in the reporting period this subsidiary of the Group delivered c. 36% EBITDA growth in comparison with H1 2017 to c. EUR 0.9 million.

Russia remains the best performing geographical segment of the Group's business in H1 2018, which generated c.61% of the Group's revenue and c.78% of EBITDA. The revenue of this segment in the reporting period declined by c. 17% on y-o-y basis, while the segments EBITDA declined by c.28% to EUR 2.8 million.

Milkiland Ukraine focused on the development of sales of high value-added products, including innovative lactose-free cheese and whole milk products, primarily in the key accounts channel. It allowed to the Group to maintain the profitability of Ukrainian segment on EBITDA level in H1 2018 like in H1 2017.

The revenue of the Ukrainian segment of the Group's business declined by c. 7% to c. EUR 16 million in the reporting period on y-o-y basis, EBITDA remained almost flat at the level of c. EUR 0.9 million.

Milkiland EU in H1 2018 conducted its business with low negative EBITDA margin. The main factors behind this were cancellation of the tolling contract with the German company for production of cheese product, as well as moderate pricing on the company's traditional dry milk products, including WPC and permeate, in the global dairy market.

As the result, the sales of Milkiland EU in H1 2018 grew by c. 17% on y-o-y basis, while its EBITDA stood at negative c. EUR 0.1 million in comparison with EUR 0.5 million in H1 2018.

On the cost side, raw and other materials costs declined by 13% in H1 2018, due to lower milk processing volumes in Russia, devaluation of the Group's operational currencies, RUB, UAH against EUR by 14.5% and 12% on y-o-y basis, respectively. This factor was partly offset by the growth of raw milk prices in Ukraine in H1 2018 by c. 8% on average in UAH terms 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 2018 were as follows. The Group's revenue decreased by c. 11% y-o-y to c. EUR 66.2 million, EBITDA declined by c. 29.4% c. EUR 3.5 million.

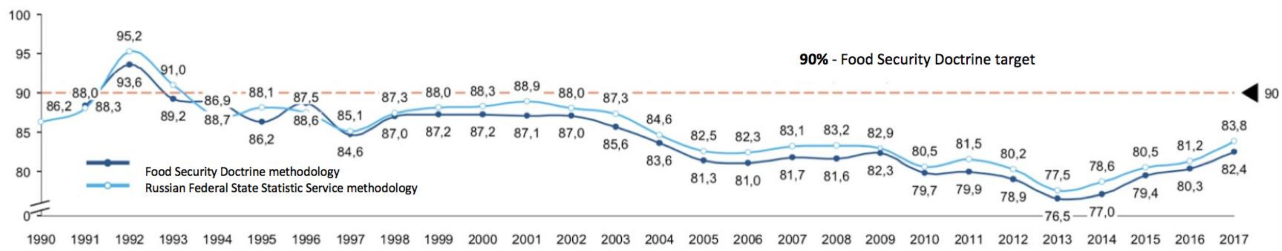
In H1 2018 Milkiland posted a net loss of c. EUR 2.5 million contrary to the net profit of c. EUR 1.6 million in the same period of the last year.

Dairy Markets

The dairy herd in Russia is expected to decline by 3% y-o-y in 2018, milk yields are anticipated to rise as the larger industrialized commercial farms improve livestock genetics and farm management practices. In H1 2018, the average milk yield in Russia grew 5.3% y-o-y to 3,118 kg. For 2018, the milk production forecast in Russia stands at 30.55 million tons (-0.2% y-o-y). Raw milk imports to Russia (both bulk and packed) increased 21% y-o-y to 122,900 tons in first five months of 2018.

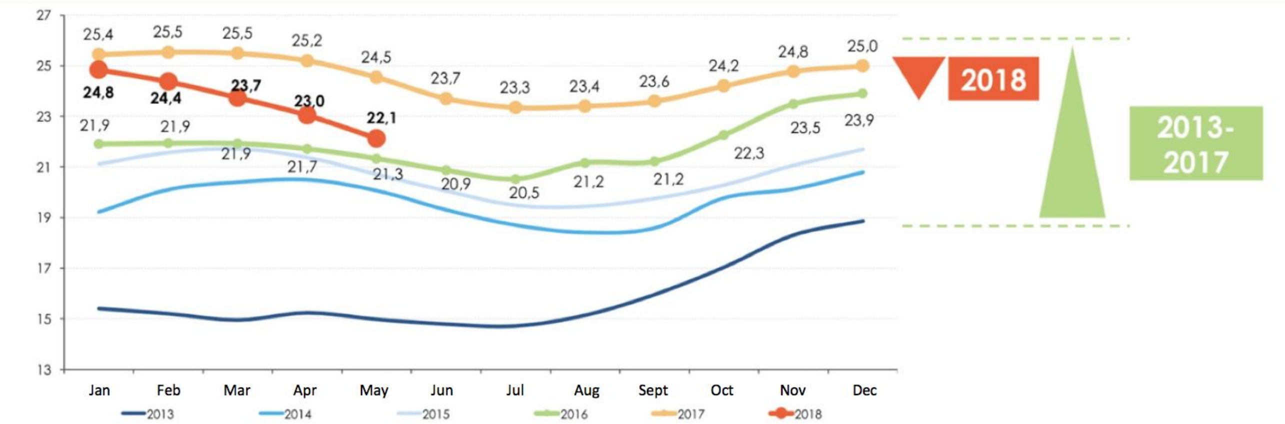
Russia has extended an import ban until December 31, 2018 for a wide range of foods originating from Western nations, primarily the EU, United States and Australia. The immediate effect of this ban has been to remove foreign competition to the benefit of domestic producers. Russia decreed in a 2010 Food Security Doctrine a self-sufficiency goal of 90% in milk and dairy products. As of end-2017, dairy products self-sufficiency in Russia stood at 82.4% (up 2.1pp y-o-y).

Milk and dairy products self-sufficiency in Russia (%, 1990 – 2017)

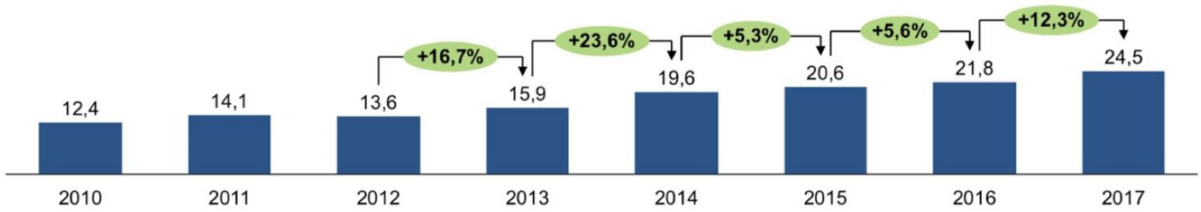


In H1 2018, raw milk production in Russia reached 15.5 million tons, up 1.6% y-o-y. The average producers price for raw milk in Russia declined by c. 19% y-o-y in euro terms in H1 2018 while declining c. 6% in rouble terms on average (rouble devalued against euro on average by 14.5% y-o-y in H1 2018).

Average raw milk prices in Russia (RUB/kg, 2013 – 2018)



Average annual raw milk prices in Russia (RUB/kg, 2010 – 2017)



The overall increase in raw milk production in Russia and decreased production costs thanks to record high harvest collected in 2017 depressed raw milk prices in the country first time since dairy products embargo enforced in 2013. We believe this trend of declining raw milk prices in Russia will be preserved till end-2018 favoring dairy processors margins. On the positive note, the disposable income in Russia grew by 2.6% y-o-y in H1 2018 moving domestic demand for dairy products to restore. Still, the uncertainty related to major changes in the distribution system of state agricultural subsidies continues to suppress raw milk producers' margins.

The Government of Russia redesigned the distribution of agricultural subsidies in 2017. They were previously distributed to the regions under 54 budget lines, which have now been merged into seven. Regions now receive funds from the federal budget as "unified agricultural subsidies", from which the regional authorities identify projects to support. Among the seven programs that remain in the federal budget, there is one left specifically for the dairy sector – "subsidies for increase of dairy cattle productivity" – which replaced "subsidies per one kg of milk sold for processing". State support remains focused on reducing the cost of capital and creating incentives for private investments in the agricultural sector.

In H1 2018, Russia produced 231,400 tons of cheese, up 3.2% y-o-y (excl. cheese products such as those produced using palm oil to reduce production cost and thus selling price for consumers, output of which grew 1.0% y-o-y for the period to 92,100 tons), while all types of cheese imports grew overall 11% y-o-y to 100,600 tons in first five months of 2018 with Belarus being major contractor (79% of total imports volume, down from 85% in 5M 2017). The overall share of imports in total cheese consumption in Russia declined 0.4pp y-o-y to 28% in H1 2018.

Cheese makers continue to work in the market with limited competition due to active trade restrictions. However, the low demand for premium varieties of cheese inhibits Russian production growth in the sector. High prices for raw milk with the fat and protein content required by cheesemakers, additional costs for imported ingredients needed for premium cheese, and high costs of capital in Russia make the cheese prices on retail shelves very uncomfortable for Russian consumers, who continue to economize on food items. Unlike the premium cheese segment, the middle category and market leaders demonstrate stable results. Consumers adjusted to the cheese assortment on the "after embargo" shelf and have chosen their favorite brands from the available options. Both demand and production of traditional fresh cheeses and "tvorog" are expected to remain stable.

In H1 2018, the purchasing power of Russian consumers began to increase. Real disposable income increased 2.6% in H1 2018; retail sales were up 2.6% y-o-y. An average consumer is still under pressure from shrinking budgets and not willing to pay premium prices for products not truly of premium quality. At the same time sales of "tvorog" and fresh cheeses will likely remain stable due to the continued absence of better imported products in the market.

Raw milk remains more expensive in Russia compared to other major milk producing countries, in particular Belarus. Only few companies in Russia specialize exclusively in whole milk powder production, while skimmed milk powder is a byproduct in plants offering assorted high-fat dairy products such as butter, cheese, and traditional dairy products. Milk powders output always increases in Russia between May and September each year, when raw milk prices usually decline. Processors add the powders to their summer assortment, store it and use between November and March to reduce expenses during the so called low milk season. Some unused capacity at drying facilities exists, and dryers may increase the output of powders when the immediate market promises profits. Considering the flexibility of the industry to reduce or increase powder production, the annual output in 2018 will be strongly influenced by pricing policies of the government of Belarus and decisions of the Russian Veterinary Phytosanitary Service. Prices for SMP in Russia are expected to remain low, following world-wide trends, because non-banned exporters offer very attractive prices for the commodity. In H1 2018, Russia produced 66,700 tons of SMP (down 4.4% y-o-y).

Ukraine produced 4.96 million tons of raw milk in H1 2018, down 1.8% y-o-y while cows herd declined 3.5% y-o-y to 2.03 million heads as of July 1, 2018. The average milk yield in Ukraine grew 3.6% y-o-y to 3,159 kg per cow as of July 1, 2018. The average producers price for raw milk grew c. 11% y-o-y in hryvnia terms over the period, implying almost zero y-o-y growth in euro terms (Ukrainian hryvnia devalued 12% to euro on average in H1 2018).

In H1 2018, Ukraine cheese output increased 2.3% y-o-y, to 82,793 tons supported by increasing exports. Cheese exports from Ukraine declined 6.1% y-o-y to 3,872 tons in H1 2018 in volume terms with Kazakhstan buying out 38% of total exports (down from 50% in H1 2017; $6.5 million) and Moldova being second largest importer of Ukrainian cheese (31% of total, up from 24% in H1 2017; $3.5 million). Cheese imports to Ukraine grew 26.3% y-o-y to 5,455 tons in H1 2018 reflecting more cheese coming from EU under FTZ agreement.

Whole milk products output volume in Ukraine increased 5.4% y-o-y to 205,465 tons in H1 2018 according to State Statistics Service on the back of increased demand on improved disposable income (+10% y-o-y in Q1 2018). In Russia, the whole milk products output fell 2.3% y-o-y to 1.45 million tons in H1 2018 which implied still zero recovery of demand for this product group.

Overall dairy product exports from Ukraine increased 19.2% y-o-y in H1 2018 in value terms, to $140 million, with butter exports accounting for the largest share of 53% in total (up from 38% in H1 2017; $74 million), followed by condensed milk and cream with 21% share in total (down from 35% in H1 2017; $29 million). Cheese exports accounted for 10% in total dairy products exports for the period in value terms (down from 12% in H1 2017; $14 million, up 1.1% y-o-y). In H1 2018, Ukraine exported 67,455 tons of dairy products (+6.9% y-o-y in volume terms).

The most notable price movement has been the rapid rise in global butter prices in H1 2017 which continued throughout H1 2018, being a co-product of skimmed milk powder. This rapid upswing is due largely to relatively tight world supplies and steady demand particularly evident in the United States and the EU. Demand growth has been fueled by consumers who now perceive butter as a safer alternative to vegetable oil substitutes such as margarine. While high prices of butter will be globally welcomed by dairy farmers this will likely induce further production of butter and its co-products, mostly in the form of skimmed milk powder (SMP). This will add to SMP supplies and likely temper any recovery in world prices.

Ukraine produced 54,252 tons of butter in H1 2018, up 5.2% y-o-y. Ukraine boosted butter exports by 41% y-o-y to 17,212 tons in H1 2018 thanks to favorable international market conditions, with Morocco being the largest importer of Ukrainian butter (28% of total butter exports in H1 2018), Turkey being the second largest importer with 18% share of total and the CIS countries importing 14% of total over the period. Europe imported c. 9% of Ukrainian butter in H1 2018.

In H1 2018, Ukraine reduced SMP exports by 8% y-o-y to 16,470 tons due to unfavorable pricing environment on the international markets, with major importers being China (55% of total, $6.0 million) and Malaysia (7% of total, $0.8 million).

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2018 and 2017 in thousands of Euro.

Selected financial data

	6 m 2018	6 m 2017
I. Revenues	66,152	74,435
II. EBITDA	3,548	5,021
III. Operating profit	(1,736)	1,157
IV. Profit (loss) before tax	(2,235)	2,224
V. Net profit (loss)	(2,517)	1,568
VI. Cash flows provided by (used in) operating activities	936	5,539
VII. Cash flows used in investing activities	(367)	(1,666)
VIII. Cash flows (used in) provided by financing activities	(1,227)	(3,422)
IX. Total net cash flow	(658)	451
X. Total assets	167,606	167,507
XI. Current liabilities	138,444	139,025
XII. Total liabilities	156,952	161,975
XIII. Share capital	3,125	3,125
XIV. Total equity	10,654	5,532
XV. Weighted average number of shares	31,250	31,250
XVI. Profit (loss) per ordinary share, EUR cents	(7.96)	4.71

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2018	6 m 2017
Revenue	66,152	74,435
Change in fair value of biological assets	61	30
Cost of sales	(54,906)	(60,304)
Gross profit	11,307	14,161
Operating income (expense), net	(13,043)	(13,004)
Operating profit	(1,736)	1,157
Net finance expense and other non-operating income (expense)	(499)	1,067
Profit (loss) before tax	(2,235)	2,224
Income tax (expense) benefit	(282)	(656)
Net profit (loss)	**(2,517)**	**1,568**
Other comprehensive income (loss)	249	(2,950)
Total comprehensive income	**(2,268)**	**(1,382)**
Net profit (loss) attributable to equity holders of the parent company	**(2,488)**	**1,471**
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**(7.96)**	**4.71**

Revenue

The Group managed to increase sales volumes in all segments thanks to recovering consumer demand in key markets and effective participation in the international trade of butter and dry milk products in H1 2018. However, the depreciation of rouble and hryvnia against the reporting currency euro (c. 14.5% and 12.0%, respectively) led to revenue decline on y-o-y basis. Thus, the Group's EUR-denominated revenue decreased c. 11% y-o-y to EUR 66.2 million.

In H1 2018, Ukraine continued enjoying increasing international demand for butter due to changing diets in developed markets towards natural milk product in substitution of homogenized fats made using palm oil etc. Thus, the Group's butter export revenues boosted one and half times both in value and volume terms in H1 2018. In the same period the Group's cheese export value more than doubled y-o-y. Milkiland's skimmed milk powder (SMP) exports reacted to slow down in international demand and performed weaker y-o-y results in H1 2018, with export value decrease almost by half on y-o-y basis.

The Group's overall cheese sales volumes boosted by c. 60% y-o-y in H1 2018 due to higher volume sales both in Ukraine and Russia thanks to recovering domestic demand for cheese, as well as five-fold boost in sales volume in Poland over the reported period. However, the Group's average cheese price declined in euro terms in H1 2018, as there was devaluation of the Ukrainian hryvnia and Russian rouble, as well as shift towards less expensive product sale capitalizing on still slow consumer demand recovery in key markets. Still, the Group managed to increase cheese sales value by 10% y-o-y in euro terms in H1 2018. As a result, boosted butter exports and increased cheese sales fueled the Group's cheese&butter segment revenue by 17% to EUR 24.2 million.

WMP segment still being the largest contributor to the Group's revenues demonstrated a 17% drop in value terms, caused mostly by the weak pricing on the Group's key operational markets while sales volumes were solid over the reported period. WMP sales volumes increased 2% y-o-y thanks to rise in volumes sales in Russia (+2% y-o-y) and stable volume sales in Ukraine (almost flat y-o-y).

Negative trends in the global dairy market contributed to 35% value drop in the Ingredients segment. For more information on the above changes, please refer to section *Overview of Operations in H1 2018 and Outlook for the Year 2018*.

Breakdown of the Group's consolidated revenue by product in H1 2018 and H1 2017

	2018		2017		2018 vs. 2017	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	24,249	37%	20,768	28%	3,481	17%
Whole milk products	32,895	50%	39,868	53%	(6,973)	-17%
Ingredients and other	9,008	14%	13,799	19%	(4,791)	-35%
Total	**66,152**	100%	**74,435**	100%	**(8,283)**	-11%

In the total revenue, cheese and butter sales accounted for 37%, whole milk products for 50% (28% and 53% respectively in the first half of 2017).

Cost of sales and Gross profit

Cost of sales declined by c. 9% to EUR 55 million. The devaluation of Russian rouble and Ukrainian hryvnia as well as cost optimization contributed to a drop in the cost of sales, also fueled by a drop in the raw milk prices in Russia (-19% y-o-y) in euro terms.

Such devaluation led to a 17% 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 decreased from c. 65% in H1 2017 to c. 61% in H1 2018. For more information on the raw milk prices and supply, refer to section *Dairy Markets*.

Increase in transportation costs by 30% on y-o-y basis was also due to increase in sales volumes over the reported period. The Group reduced the share of raw milk purchased from individual farmers, increasing the share of raw milk bought from farms in total intake, including for production of kosher products. The Group's own farms supplied 8% of total raw milk intake in H1 2017 (flat y-o-y).

Breakdown of the Group's cost of sales in H1 2018-2017, '000 EUR and %

	2018		2017	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	40,643	61.4%	48,806	65.4%
Wages and salaries	3,947	6.0%	2,637	3.5%
Depreciation	3,515	5.3%	4,213	5.7%
Transportation costs	1,264	2.3%	976	1.3%
Gas	2,233	1.9%	1,679	2.3%
Other	3,304	5.0%	4,160	5.6%
Total	**54,906**	**83.0%**	**60,304**	**81.0%**

The Group's gross profit decreased by 20% to EUR 11 million due slower drop in COGS then in revenues, with the gross margin of 17.1% against 19.0% in the first half of 2017.

Profit from operations and EBITDA

A negative effect put by lower EUR-denominated revenue and the lower share of raw milk costs in the total revenue on the gross margin in the first half of 2018 resulted in decrease in the Group's EBITDA by 29% to c. EUR 3.5 million, EBITDA margin constituted 5.4% in H1 2018 vs. 6.7% in H1 2017.

The Group's Russian business EBITDA decreased by 41% y-o-y due to the factors listed above. Ukrainian business EBITDA in H1 2018 also dropped in absolute terms (EUR 0.9 million, -18% y-o-y). Polish segment EBITDA resulted in the negative territory (EUR 0.01 million loss vs. EUR 0.5 million income in the same period of 2017). The reasons behind this were the decrease of capacity utilization of Ostrowia cheese plant due to cancellation of the tolling contract with German producer together with weaker price situation with dry milk products.

Selling and distribution expenses and administrative expenses dropped 22% and 11% y-o-y respectively in euro terms over the reported period.

Profit before tax and Net profit

In the first half of 2018, financial expense related to bank borrowings declined 22% thanks to currency translation effects. The devaluation of Ukrainian hryvnia and Russian rouble against euro and US dollar resulted in a non-cash foreign exchange gain of EUR 3.3 million (compared to EUR 6.5 gain in H1 2017).

Despite considerable foreign exchange gain, the Group recognized loss before tax of EUR 2.2 million compared to income of EUR 2.2 million in H1 2017. Net loss for the first half of 2018 accounted for EUR 2.5 million compared to net income of EUR 1.6 million in H1 2017.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2018	December 31, 2017	June 30, 2017
Cash and cash equivalents	746	1,416	1,459
Trade and other receivables	23,927	19,406	24,830
Inventories	9,472	8,713	12,434
Other current assets	8,500	7,279	10,937
Total current assets	**42,645**	**36,814**	**49,660**
PPE	99,394	99,679	91,354
Deferred income tax assets	2,504	2,472	2,571
Other non-current assets	4,743	21,450	5,085
Total non-current assets	**124,961**	**123,601**	**117,847**
Total assets	**167,606**	**160,415**	**167,507**
Trade and other payables	49,003	40,778	49,506
Short-term loans and borrowings	83,639	75,800	82,000
Other current liabilities	5,802	6,281	7,519
Total current liabilities	**138,444**	**122,859**	**139,025**
Loans and borrowings	3,893	10,756	11,266
Deferred income tax liability	14,488	13,760	11,552
Other non-current liabilities	127	118	132
Total non-current liabilities	**18,508**	**24,634**	**22,950**
Total liabilities	**156,952**	**147,493**	**161,975**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	88,293	90,048	78,277
Retained earnings	(82,081)	(81,481)	(76,953)
Total equity attributable to equity holders of the parent company	**9,337**	**11,692**	**4,449**
Non-controlling interests	1,317	1,230	1,083
Total equity	**10,654**	**12,922**	**5,532**
Total liabilities and equity	**167,606**	**160,415**	**167,507**

Assets

Due to the Ukrainian hryvnia and Russian rouble depreciation in the first half of 2018, The Group's EUR-denominated current assets decreased from EUR 49.7 million as of June 30, 2017 to EUR 42.6 million as of June 30, 2018, non-current assets increased by c.6% resulting in flat total assets.

Other taxes receivable remained almost unchanged y-o-y over the reported period and represent stable VAT recoverable of the Group on exports from Ukraine.

Trade and other receivables grew by 23% since the beginning of year with trade accounts receivable 22% higher and other receivables 21% higher than on December 31, 2017.

PPE of the Group stood almost unchanged since the beginning of the year at EUR 99.4 million for the reported period.

Liabilities and equity

Total liabilities increased 6% since the beginning of the year resulting from a 13% growth in current liabilities but 25% decline in non-current liabilities. Long-term borrowings fell 64% since the beginning of the year, to EUR 3.9 million. The Group's short-term loan portfolio increased by 10% as a result of foreign exchange differences. During the first half of 2018, the Group repaid EUR 1.1 million and attracted EUR 0.1 million of loans.

As a result of the above movements, during the first six months of 2018 the net debt of the Group increased c. 2% since the year beginning and stood at EUR 86.8 million as of June 30, 2018 (EUR 85.1 million as of December 31, 2017). Total Debt Ratio constituted 0.94 vs. 0.92 on June 30, 2018 and December 31, 2017.

The Group's total equity decreased by c. 18% to EUR 10.7 million in H1 2018 since the beginning of the year, on the back of currency fluctuations. Net debt/equity ratio was 8.2 as of June 30, 2018 vs. 6.6 as of December 31, 2017.

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 15, 2018, 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 2019. 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 2019. 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 2019. The remuneration of Mr. V. Rekov was set in accordance with the remuneration policy of the Company.

(d) Re-appoint Mr. George Christopher Logusch as non-executive director of the Board of Directors 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 2019. The remuneration of Mr. George Christopher Logusch was set in accordance with the remuneration policy of the Company.

(e) 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 2019. The remuneration of Mr. Pavlo Sheremeta was set in accordance with the remuneration policy of the Company.

Material Factors and Events after the Reporting Date

Decline of the holding shares in Milkiland N.V.

On August 3, 2018, the Board of Directors of Milkiland N.V. received the notification from AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE"), with its registered seat in Warsaw, Poland, dated 31 July 2018, 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 26 July, 2018.

On July 30, 2018, Aviva OFE holds 1,561,306 (one million five hundred and sixty one thousand three hundred and six) shares of the Company that constitutes 4.996% of the Company's share capital and corresponds to 1,561,306 (one million five hundred and sixty one thousand three hundred and six) votes or 4.996% of the voting rights on the General Meeting of Shareholders.

Before the transaction Aviva OFE held 1,570,579 (one million five hundred and seventy thousand five hundred and fifty-nine) shares of the Company that constituted 5.03% of Company's share capital and corresponded to 1,570,579 (one million five hundred and seventy thousand five hundred and fifty-nine) votes or 5.03% of the voting rights on the General Meeting of Shareholders.

Strategic Plans and Initiatives for H2 2018

The Group's management plan to further implement in the second half of 2018 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, improvement of the efficiency of its business. It includes, *inter alia,* the following measures:

Finance:

- Continue the negotiations with the creditors of the Group, including negotiation with the creditors under Syndicated Loan Facility, namely, UniCredit Bank Austria AG and AO Raiffeisenbank, in order to agree a scheme of the restructuring of debt under Syndicated Loan Facility Agreement provided by these banks in 2011.
- Continue to fulfill the obligations under the signed debt restructuring agreements 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).
- To continue the production of the kosher products for export to Israel, different types of soft cheese for export in EU countries, as well as Arab countries, at the production plants of Milkiland Ukraine and Milkiland EU.
- To continue a localization of cheese production in Russia by Rylsk cheese plant.

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, China, Israel, MENA countries.
- Seek the new opportunities of profitable participation in the international trade of dairy goods in the global market.
- Development of profitable international trade, including by butter, 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.
- Use opportunities of import to Ukraine of Polish made dairy, including of different types of cheese, 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 products on the shelfs of key account clients in Russia.
- Promotion of Polish and Ukrainian made cheese of the Group in the Polish and Ukrainian markets.

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 2018 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 2018 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, 30 August 2018

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

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

Contents

(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2018 (unaudited)	31 December 2017 (audited)	30 June 2017 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	746	1,416	1,459
Trade and other receivables	7	23,927	19,406	24,830
Inventories	8	9,472	8,713	12,434
Current biological assets	12	2,134	1,302	1,770
Current income tax assets		701	783	633
Other taxes receivable	9	5,665	5,194	8,534
		42,645	**36,814**	**49,660**
Non-Current Assets				
Goodwill	10	1,428	1,474	1,540
Property, plant and equipment		99,394	99,679	91,354
Investment property		18,319	16,732	18,837
Non-current biological assets	12	1,601	1,251	1,337
Other intangible assets		1,714	1,993	2,208
Deferred income tax assets		2,504	2,472	2,571
		124,961	**123,601**	**117,847**
TOTAL ASSETS		**167,606**	**160,415**	**167,507**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	49,003	40,778	49,506
Current income tax liabilities		579	807	569
Other taxes payable	14	5,223	5,474	6,950
Short-term loans and borrowings		83,639	75,800	82,000
		138,444	**122,859**	**139,025**
Non-Current Liabilities				
Loans and borrowings	15	3,893	10,756	11,266
Deferred income tax liabilities		14,488	13,760	11,552
Other non-current liabilities		127	118	132
		18,508	24,634	22,950
Total liabilities		**156,952**	**147,493**	**161,975**
Equity attributable to owners of the Company				
Share capital	16	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		77,490	79,403	66,696
Currency translation reserve		(37,884)	(38,042)	(37,106)
Retained earnings		(82,081)	(81,481)	(76,953)
		9,337	**11,692**	**4,449**
Non-controlling interests		**1,317**	**1,230**	**1,083**
Total equity		**10,654**	**12,922**	**5,532**
TOTAL LIABILITIES AND EQUITY		**167,606**	**160,415**	**167,507**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the six months ended 30 June 2018
(All amounts in euro thousands unless otherwise stated)

	Notes	2018 (unaudited)	2017 (unaudited)
Revenue	17	66,152	74,435
Change in fair value of biological assets		61	30
Cost of sales	18	(54,906)	(60,304)
Gross Profit		**11,307**	**14,161**
Selling and distribution expenses	19	(5,020)	(6,398)
Administrative expenses	20	(5,551)	(6,259)
Other income/(expenses), net	21	(2,472)	(347)
Operating profit/(loss)		**(1,736)**	**1,157**
Finance income	22	3,336	6,494
Finance expenses	23	(3,835)	(5,395)
Profit/(loss) before income tax		**(2,235)**	**2,224**
Income tax	24	(282)	(656)
Net profit/(loss) for the year		**(2,517)**	**1,568**
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		249	(2,950)
Total comprehensive income/(loss)		**(2,268)**	**(1,382)**
Profit/(loss) attributable to:			
Owners of the Company		(2,488)	1,471
Non-controlling interests		(29)	97
		(2,517)	**1,568**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		(2,355)	(1,356)
Non-controlling interests		87	(26)
		(2,268)	**(1,382)**
Earnings per share (EURO cent)		(7.96)	4.71

(All amounts in euro thousands unless otherwise stated)

	Note	2018 (unaudited)	2017 (unaudited)
Cash flows from operating activities:			
Gain/(Loss) before income tax		**(2,235)**	**2,224**
Adjustments for:			
Depreciation and amortization	21	4,546	4,735
(Gain)/Loss from disposal and write off of inventories	21	430	594
Change in provision and write off of trade and other accounts receivable	21	(47)	(12)
Change in provision and write off of unrealised VAT	21	(12)	104
(Gain)/loss from write off, revaluation and disposal of non-current assets	21	738	(871)
Change in fair value of biological assets		(61)	(30)
Operational foreign exchange results, net	21	(8)	(440)
Finance income	22	(3,336)	(6,494)
Finance expenses	23	3,835	5,395
Write off of accounts payable	21	-	(1)
Operating cash flow before movements in working capital		**3,850**	**5,204**
(Increase)/ Decrease in trade and other accounts receivable		(997)	(2,767)
Decrease/(Increase) in inventories		(1,145)	(632)
(Increase)/ Decrease in biological assets		(860)	(691)
Increase/ (Decrease) Increase in trade and other payables		1,435	3,706
Decrease/(Increase) in other taxes receivable		(20)	26
Increase/ (Decrease) in other taxes payable		(342)	1,581
Net cash provided by/(used in) operations:		**1,921**	**6,427**
Income taxes paid		(621)	(138)
Interest received		21	2
Interest paid		(385)	(752)
Net cash provided by/(used in) operating activities		**936**	**5,539**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(383)	(1,666)
Proceeds from sale of property, plant and equipment	11	-	-
Acquisition of subsidiaries, net of cash acquired		16	-
Net cash used in investing activities		**(367)**	**(1,666)**
Cash flows from financing activities			
Proceeds from borrowings	15	(97)	1,463
Repayment of borrowings	15	(1,130)	(4,885)
Commission paid and fair value adjustment			-
Net cash (used in)/provided by financing activities		**(1,227)**	**(3,422)**
Net increase in cash and equivalents		**(658)**	**451**
Cash and equivalents, beginning of the period	6	**1,416**	**1,044**
Effect of foreign exchange rates on cash and cash equivalents		(12)	(36)
Cash and equivalents, end of the period	6	**746**	**1,459**

(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 2017	**3,125**	**48,687**	**(34,297)**	**69,208**	**(80,918)**	**5,805**	**1,109**	**6,914**
Profit/(Loss) for the period	-	-	-	-	1,471	**1,471**	97	**1,568**
Other comprehensive gain/(loss), net of tax effect	-	-	(2,809)	(18)	-	**(2,827)**	(123)	**(2,950)**
Total comprehensive loss for the period	**-**	**-**	**(2,809)**	**(18)**	**1,471**	**(1,356)**	**(26)**	**(1,382)**
Realised revaluation reserve, net of income tax	-	-	-	(2,494)	2,494	-	-	-
Balance at 30 June 2017	**3,125**	**48,687**	**(37,106)**	**66,696**	**(76,953)**	**4,449**	**1,083**	**5,532**
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**

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 2018 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 30 August 2018.

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 2018 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 2018, the Group employed 3,283 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 2018	31 December 2017	30 June 2017
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%
DE Milkiland Ukraine	Ukraine	Managing	-	-	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%	-

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 2018 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 2017, 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 2017.

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 2018. Listed below are those new or amended standards or interpretations which could be relevant to the Company:

Amendments to IAS 7 Disclosure Initiative, IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses and Disclosure of Interests in Other Entities The amendments are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity.

IFRS 12 Disclosure of Interests in Other Entities.

Amendments have been made to clarify the scope of IFRS 12 in respect of interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Specifically it clarifies that entities are not exempt from all of the disclosure requirements in IFRS 12 when entities have been classified as held for sale or as discontinued operations.

The standard as amended therefore makes it clear that it is only the disclosure requirements set out in paragraphs B10 – 16 that do not need to be provided for entities within the scope of IFRS 5.

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

IFRS and IFRIC interpretations.

The Company applied the following IFRSs and Interpretations to IFRS and IAS that have been issued and are effective for periods beginning on or after 1 January 2018:

IFRS 9 Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. As the main financial assets used by the Company are limited to trade and other receivables, the adoption of IFRS 9 will not have a significant effect on the classification, valuation and measurement of the Company's financial assets. The company does not use hedging or derivatives accounting of which could be impacted by the new standard. The adoption of IFRS 9 will have no impact on the classification and measurement of the Company's financial liabilities.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

Company mainly recognizes the revenue at the point of time, when it transfers control over the products or services to a clients. Given the fact, that crucial part of the trading of the Company is made through sales of finished goods without any compound performance obligations, warranty period or any other services for its products, franchise, licenses, bundled offers etc., - the Company does not anticipate significant changes in the Financial Statement, as the result of the new standard implementation, except of non-significant changes, including in accounting of wholesalers loyalty programs (retro-bonuses). These bonuses dropped significantly due to the changes of legislation in the countries of the Group's operations.

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 560 thousands at the year ended 31 December 2018.

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.

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.

(All amounts in euro thousands unless otherwise stated)

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.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

Amendments to IAS 40 Investment property. The IASB has amended IAS 40 on transfers of property assets to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. The revised examples of evidence of a change in use included in the amended version of IAS 40 are not exhaustive – i.e. other forms of evidence may support a transfer.

Amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

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 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
As at 31 December 2017	1.1993	33.6610	68.8668	4.1709
As at 30 June 2017	1.1412	29.7842	67.4993	4.2265
Average for six months ended 30 June 2017	1.0823	28.9549	62.7187	4.2704

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 2018 the in-house milk production covered c.8% 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:

	2018				**2017**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	40,167	18,460	7,642	66,269	48,183	19,785	6,520	74,488
Inter-segment revenue	(11)	(11)	(95)	(117)	-	-	(53)	(53)
Revenue from external customers	40,156	18,449	7,547	66,152	48,183	19,785	6,467	74,435
EBITDA	**2,767**	**893**	**(96)**	**3,564**	**3,843**	**1,090**	**518**	**5,451**
EBITDA margin	7%	5%	-1%	5%	8%	6%	8%	7%
Depreciation and amortisation	782	2,886	878	4,546	1,412	2,409	914	4,735

(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:

	2018				2017			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	24,249	32,895	9,125	66,269	20,768	39,868	13,852	74,488
Inter-segment revenue	-	-	(117)	(117)	-	-	(53)	(53)
Revenue from external customers	24,249	32,895	9,008	66,152	20,768	39,868	13,799	74,435
EBITDA	**1,697**	**1,779**	**88**	**3,564**	**3,559**	**1,913**	**(21)**	**5,451**
EBITDA margin	7%	5%	1%	5%	17%	5%	0%	7%
Depreciation and amortisation	2,049	1,188	1,309	4,546	1,200	1,642	1,893	4,735

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

	2018	**2017**
EBITDA	3,564	5,451
Other segments EBITDA	(16)	(430)
Total segments	**3,548**	**5,021**
Depreciation and amortisation	(4,546)	(4,735)
Loss from disposal and impairment of non-current assets	(738)	871
Finance expenses	(3,835)	(5,427)
Finance income	3,336	6,494
Profit/(loss) before tax	**(2,235)**	**2,224**

(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 2018	31 December 2017	30 June 2017
Trade accounts receivable	49	-	281
Other financial assets	217	555	2,333
Other accounts receivable	2,197	53	101
Total trade and other receivables	**2,463**	**608**	**2,715**
Trade payables	35	-	24
Other accounts payable	1,263	842	15
Total trade and other payables	**1,298**	**842**	**39**

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2018 paid or payable to key management for employee services is EUR 107 thousand (2017: EUR 95 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 2018	31 December 2017	30 June 2017
Short term deposits	-	436	-
Cash in bank and cash on hand	746	980	1,459
Total cash and cash equivalents	**746**	**1,416**	**1,459**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	30 June 2018	31 December 2017	30 June 2017
Trade accounts receivable	11,938	9,757	12,578
Other financial assets	10,319	8,247	9,958
Allowance for doubtful debts	(9,752)	(8,960)	(9,392)
Total financial assets within trade and other receivables	**12,505**	**9,044**	**13,144**
Advances issued	3,875	1,945	3,697
Other receivables	8,205	9,035	8,673
Allowance for doubtful debts	(658)	(618)	(709)
Total trade and other accounts receivable	**23,927**	**19,406**	**24,830**

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 2018	31 December 2017	30 June 2017
Raw and other materials	4,556	4,970	3,814
Finished goods and work in progress	4,812	3,516	8,473
Agriculture produce	104	227	147
Total inventories	**9,472**	**8,713**	**12,434**

9 Other taxes receivable

	30 June 2018	31 December 2017	30 June 2017
VAT recoverable	5,329	4,907	8,166
Payroll related taxes	95	92	77
Other prepaid taxes	241	195	291
Total other taxes receivable	**5,665**	**5,194**	**8,534**

(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	2018	**2017**
Balance at 1 January	1,474	1,558
Foreign currency translation	(46)	(18)
Balance at 30 June	**1,428**	**1,540**

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 2018 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 383 thousand (2017: EUR 93 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 2018 and 2017 biological assets comprise the following groups:

	30 June 2018		**30 June 2017**	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	2,812	1,268	2,836	945
Other livestock	-	-	-	2
Total biological assets of animal breading	**2,812**	**1,268**	**2,836**	**947**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Other	-	866	-	131
Total biological assets of plant growing	**-**	**866**	**-**	**131**
Total current biological assets	**-**	**2,134**	**-**	**1,078**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	1,870	1,601	1,672	1,301
Other livestock	-	-	-	-
Total non-current biological assets	**1,870**	**1,601**	**1,672**	**1,301**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	30 June 2018	31 December 2017	30 June 2017
Trade payables	17,602	14,872	18,487
Accounts payable for fixed assets	13	23	-
Interest payable	17,245	14,340	13,826
Other financial payables	-	-	-
Total financial liabilities within trade and other payable	**34,860**	**29,235**	**32,313**
Wages and salaries payable	1,769	1,445	1,856
Advances received	2,815	1,048	9,154
Other accounts payable	8,554	8,176	5,024
Accruals for employees' unused vacations	1,005	874	1,159
Total trade and other payables	**49,003**	**40,778**	**49,506**

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 2018	31 December 2017	30 June 2017
VAT payable	418	1,102	3,251
Payroll related taxes	3,304	3,137	2,841
Other taxes payable	1,501	1,235	858
Total other taxes payable	**5,223**	**5,474**	**6,950**

15 Loans and borrowings

	30 June 2018	31 December 2017	30 June 2017
Current			
Interest bearing loans due to banks	82,001	74,012	80,684
Loans from non-financial institutions	1	1	-
Bank overdrafts	11	9	7
Finance leases	1,626	1,778	1,309
Total current borrowings	**83,639**	**75,800**	**82,000**
Non-current			
Interest bearing loans due to banks	3,814	10,632	11,120
Finance leases	79	124	146
Total non-current borrowings	**3,893**	**10,756**	**11,266**
Total borrowings	**87,532**	**86,556**	**93,266**

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

	2018	2017
Balance at 1 January	**86,556**	**102,286**
Obtained new loans and borrowings	(97)	1,463
Repaid loans and borrowings	(1,130)	(4,885)
Discounting of borrowings	303	-
Foreign exchange (gain)/loss	1,900	(7,125)
Balance at 30 June	**87,532**	**93,266**

As at 30 June 2018 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 2018 and 2017 is as follows:

	2018		2017	
	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

(All amounts in euro thousands unless otherwise stated)

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

	2018	2017
Cheese & Butter	24,249	20,768
Whole-milk products	32,895	39,868
Ingredients	9,008	13,799
Total revenue	**66,152**	**74,435**

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

	2018	2017
Russia	40,086	48,279
Ukraine	17,709	16,929
Poland	7,429	5,497
Other	928	3,730
Total revenue	**66,152**	**74,435**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2018	2017
Raw and other materials	40,643	48,806
Wages and salaries	3,947	2,637
Depreciation	3,515	4,213
Gas	2,233	1,679
Electricity	1,795	1,487
Transportation costs	1,264	976
Social insurance contributions	762	603
Repairs of property, plant and equipment	363	234
Water	69	84
Changes in finished goods and work in progress	(898)	(776)
Other	1,213	2,361
Total cost of sales	**54,906**	**60,304**

19 Selling and distribution expenses

	2018	2017
Transportation costs	2,308	3,638
Wages and salaries	1,483	1,445
Social insurance contributions	281	372
Security and other services	191	166
Marketing and advertising	168	15
Rental costs	113	60
Depreciation and amortisation	96	188
Licence fees	11	10
Other	369	504
Total selling expenses	**5,020**	**6,398**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2018	2017
Wages and salaries	2,643	2,756
Taxes and other charges	544	660
Social insurance contributions	458	507
Depreciation and amortisation	338	334
Consulting fees	303	520
Security and other services	211	238
Transportation costs	180	228
Rental costs	146	83
Repairs and maintenance	126	90
Other utilities	86	80
Bank charges	66	68
Communication	53	64
Representative charges	41	165
Office supplies	13	12
Property insurance	11	13
Other	332	441
Total administrative expenses	**5,551**	**6,259**

21 Other income/(expenses), net

	2018	2017
Gain/(loss) from disposal of non-current assets	378	871
Rental income	78	296
Change in provision and write off of trade and other accounts receivable	47	12
Change in provision and write off of VAT receivable	12	(104)
Operational foreign exchange results, net	8	440
Gain from write off of accounts payable	-	1
Government grants recognised as income	-	12
Penalties	(254)	(1,603)
Gain/(loss) from disposal and write off of inventories	(430)	(594)
Depreciation and amortisation	(596)	-
Loss from revaluation of non-current assets	(1,116)	-
Other income/(expenses), net	(599)	322
Total other (expenses)/income, net	**(2,472)**	**(347)**

22 Finance income

	2018	2017
Finance foreign exchange gain	3,253	6,493
Other fin income	83	-
Bank deposits	-	1
Total finance income	**3,336**	**6,494**

(All amounts in euro thousands unless otherwise stated)

23 Finance expenses

	2018	2017
Bank borrowings	2,969	3,788
Other borrowings	496	54
Discounting of loans	303	1,527
Finance foreign exchange loss	53	15
Finance leases	14	11
Other finance expense	-	-
Total finance expenses	**3,835**	**5,395**

24 Income tax

	2018	2017
Current income tax expense	(503)	(420)
Deferred income tax benefit	221	(236)
Total income tax expense	**(282)**	**(656)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2018 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2017: 18%), Russian profit tax was levied at the rate of 20% (2017: 20%), Poland profit tax was levied at the rate of 19% (2017: 19%). In 2018 the tax rate for Panama operations was 0% (2017: 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
The Amendment agreement to Revolving Credit Facility agreement and Overdraft Credit Facility agreement between Pekao Bank S.A. and Ostrowia sp. z.o.o., Milkiland EU, UA Trade and Milkiland NV on restructuring of the indebtedness was signed on 29 August 2018.Current interest rate is WIBOR+2,5%.The loan and the overdraft is prolonged until 31.07.2019. Monthly repayment of the loan in the amount of 100 000 PLN (22 927 EUR) plus current interests. Suspension of the court process against Milkiland NV as a guarantor. Accrued penalty interest in the amount of 609 929,51 PLN (139 841 EUR) is prolonged until 31.07.2019.

The updated restructuring agreement was signed 28.08.2018. The leasing is prolonged until 31.12.2019.