Report of the Board of Directors on operations in the first half of 2017

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Overview of Operations in H1 2017 and Outlook for the Year 2017

Strategy and Operations

First half of 2017 became a period of improved macroeconomic environment in the key markets of the Group in Russia and Ukraine, when the restoration of the growth trends in the national economies of both countries became evident.

In particular, Russian authorities penciled 0.5% increase of GDP in Q1 2017, while in Q2 this growth accelerated to 2.5%, 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 2017 grew by 2.5% on y-o-y basis, fueling by the improved output of agricultural and construction sectors, as well as growing retail trade turnover. Almost the same positive dynamics of this main national account was achieved in Q2 2017.

More stable situation with the national currencies of the both countries was observed in the reporting period, which positively differed from the deep devaluation of RUB and UAH in 2014-2016. While Ukrainian hryvnya softly devalued against EUR by 0.2% in H1 2017 on average in the comparison with the same period of 2016, Russian rouble in this period significantly revalued against European currency by 18% on average on y-o-y basis.

Positively, both economies posted single-digit inflation rates, in particular, CPI in Russia in H1 2017 stood at 4.4%, in Ukraine – at 7.9%.

Sadly, these positive trends had no or little effect at the real disposable income of population of those countries. In H1 2017 real disposal income of Russians fell by 1.4% on y-o-y basis, while Ukrainians enjoyed only minor growth of this indicator by 2.4% in Q1 2017. As a result, dairy producers in Russia conducted their business in the situation of little decline of the demand for their goods, while their colleagues in Ukraine faced the stagnating dairy market environment.

Positive macroeconomic background in H1 2017 existed for the Group's operations in Polish market. In this period, GDP of Poland grew by 4%, mainly supported by the growth of the industrial output by 7.3% in Q1 2017 and further 4.2% in Q2 2017. CPI in H1 2017 stood at low 2.0%.

Being limited in growth opportunities in the core markets of its operations, in H1 2017 Milkiland put an additional efforts aimed at the entering of new export markets and catching the opportunities of profitable international trade in the global dairy market.

One of such opportunities was the growing global demand and prices for butter, triggered by lower milk processing and production volumes of this product in EU in the reporting period. In order to catch this opportunity, Milkiland Intermarket managed to find the new markets for butter in Israel, by selling this product, which passed the kosher treatment, as well as in Netherlands. As the result, the butter sales volumes grew by two and a half times in H1 2017 in comparison with the same period of 2016, the respective revenues leapt by five times.

In addition to higher butter sales, Milkiland Intermarket also focused on opening of new destinations of sales of dry milk products and different types of cheese produced by the Group, including under the framework of FTZ Agreement between Ukraine and EU. In particular, soft types of cheese in H1 2017 were supplied to Poland, Romania and Italy. Specially produced soft types of cheese were admitted to the market of Jordan. In line with the efforts aimed at the development of the distribution network in China, the sales of dry milk products to this country in the reporting period rose by more than 13 times in volume terms on y-o-y basis. These products were also supplied to 16 other countries globally.

Returning to the core markets of the Group operations, in H1 2017 Milkiland decreased its overall sales volumes by 21% y-o-y by following its strategy to focus on production and selling of higher value added products to preserve the profitability of the Group's business segments.

In the reporting period, Russian segment of the Group's business faced a situation of pressure on the production costs on the back of higher prices for raw milk and revaluation of the national currency (raw milk prices were by 16.5% on average higher in H1 2017 on y-o-y basis, while RUB revalued by 18% on average in the comparison with H1 2016). To offset this pressure, Ostankino effectively managed the milk supply by reshuffling of the suppliers and changing the milk purchase conditions, some volumes of the most expensive milk were rejected.

On a revenue side, Ostankino concentrated on selling the high value-added whole milk dairy, primarily through the key accounts channel, better servicing of the key clients. As the result, the profitability of Ostankino business on EBITDA level increased by 2 pp. to 8% in H1 2017 on y-o-y basis.

Milkiland RU continued the localization of cheese production at its subsidiary in Rylsk. Due to sales growth and costs control measures in the reporting period, this subsidiary of the Group delivered practically the same profitability as in H1 2016.

Russia remains the best performing geographical segment of the Group's business in H1 2017, which generated c.65% of the Group's revenue and c.70% of EBITDA. The revenue of this segment in the reporting period remained practically flat on y-o-y basis, while the segments EBITDA rose by c.28% to EUR 3.8 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, also trying to increase the prices for finished goods in line with the general market trends. It allowed to the Group to increase the EBITDA margin of the Ukrainian segment in H1 2017 by 1 pp. in comparison with the same period of 2016.

The revenue of the Ukrainian segment of the Group's business declined by 6% in the reporting period on y-o-y basis, EBITDA remained flat at the level of c. EUR 1.1 million.

Milkiland EU in H1 2017 managed to improve a profitability of its business, when EBITDA margin of this subsidiary grew by 7 pp. to 8% in comparison with the same period of 2016. First time during a history of its operations under the Group's control, the net profit of Milkiland EU came to a positive territory. One of the factors behind this was the effective implementation of the tolling contract with the German company for production of cheese product. The company also continued its traditional business of production and selling of dry milk products, including WPC and permeate, in the global dairy market based at the improved situation with the global prices for these goods.

As the result, the sales of Milkiland EU in H1 2017 grew by c. 35% on y-o-y basis, while its EBITDA leapt by 8 times to EUR 0.5 million in comparison with the same period of 2016.

The Group's product segment revenues in the reporting period reflected the influence of the above mentioned factors, when sales in volume terms were lower due to weaker demand for the dairy goods in the core markets of Milkiland's operations, but the profitability of the Group's these segments on EBITDA level was supported or even improved in line with the efforts aimed at the selling of high value-added products and profitable international trading of butter and dry milk products.

Revenues in Cheese&butter segment in the first six months of 2017 in comparison with the same period of 2016 decreased by c. 14% to EUR 20.8 million as the result of the influence of lower sales volumes, which was partly offset by higher sales prices of cheese, as well as galloping export sales of butter with relatively high pricing. The latter led to significant improve of the segment's profitability, when EBITDA margin of cheese&butter sector in H1 2017 was two times higher in comparison with the respective period of the last year and stood at 17%.

In H1 2017 Milkiland posted c. 6% decline in revenues in Whole-milk product segment in comparison with the same period of 2016 to c. EUR 40 million, driven by decrease of the sales volumes in Russia and Ukraine. The profitability of the segment declined modestly from 5.7% in H1 2016 to 4.8% in the same period of the current year.

The revenue in Ingredients segment almost doubled in H1 2017 on y-o-y basis to c. EUR 14 million based at active sales of dry milk products in the global market. The EBITDA margin stood practically at zero level. For more information on the situation on global dairy markets, please refer to section *Dairy Markets*.

On the cost side, raw materials costs declined by c.5% in H1 2017, mainly due to lower milk processing volumes. This factor was partly offset the growth of raw milk prices in Ukraine, Russia and Poland (by c. 40%, 16% and 21% on average in H1 2017 on y-o-y basis, in national currencies terms respectively).

As the result of the above mentioned geographical and product segments dynamics, macroeconomic and market factors, the Group's key financial results in H1 2017 were as follows. The Group's revenue increased by c. 1% y-o-y to c. EUR 74.4 million, EBITDA rose by c. 47% c. EUR 5.0 million.

Importantly, that Milkiland in H1 2017 posted a net profit of c. EUR 1.6 million contrary to the loss of c. EUR 15.1 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 2017, milk yields are anticipated to rise as the larger industrialized commercial farms improve livestock genetics and farm management practices. Reportedly, milk output in these newer commercial operations grew by 4% y-o-y in Q1 2017, while milk yields increased by 5%. For 2017, the outlook remains favorable as milk prices in the first quarter of this year were higher than anticipated while feed prices were lower than expected. This improvement in producer's milk margins is likely to continue for the balance of the year. However, domestic demand remains weak and there is some uncertainty regarding the distribution of agricultural subsidies. For 2017, the milk production forecast in Russia stands at 30.7 million tons (+1% y-o-y). This will likely impact imports of fluid milk, which are expected to reach 300,000 tons, this represents an 8% y-o-y drop.

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.

In H1 2017, raw milk production in Russia reached 15.3 million tons, up 0.6% y-o-y while milking cows herd declined by c. 1.5% y-o-y to 8.3 million heads as of July 1, 2016. The average producers price for raw milk in Russia grew by c. 16% y-o-y in rouble terms in H1 2017 and for the first time in the last three years implying a significant increase in euro terms (rouble revalued against euro on average by 18% y-o-y in H1 2017).

The seasonal increase of raw milk prices in Russia in the first quarter of 2017 was stronger than previously anticipated, mostly due to a spike in world dairy prices. Feed prices were favorable because of the record crops of 2016 and declining costs for imported feed components as the ruble appreciated against the US dollar. In these ways, improved margins from raw milk sales have mitigated the negative impacts of weak domestic demand and uncertainty related to major changes in the distribution system of state agricultural subsidies.

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 2017, Russia produced 224,200 tons of cheese, up 1.7% 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 10.7% y-o-y for the period to 89,000 tons), while cheese imports fell 32.8% y-o-y to 8,700 tons in H1 2017 and cheese products imports grew c. 50% y-o-y with Belarus being major contractor (90% of total imports volume).

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 2017, the purchasing power of Russian consumers continued to decline. Real disposable income contracted 0.2% in the first quarter of 2017; retail sales were 1.8% lower than in the first quarter of 2016. 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.

Ukraine produced 5.1 million tons of raw milk in H1 2017, down 0.9% y-o-y while cows herd declined 2.5% y-o-y to 2.1 million heads as of July 1, 2017. The average producers price for raw milk grew c. 40% y-o-y in hryvnia terms over the period, implying the same y-o-y growth in euro terms (Ukrainian hryvnia only slightly devalued 0.2% to euro on average in H1 2017).

In H1 2017, Ukraine cheese output increased 4.4% y-o-y, to 80,900 tons supported by increasing exports. Cheese exports from Ukraine boosted 21.3% y-o-y to 4,123 tons in H1 2017 in volume terms with Kazakhstan buying out 50% of total exports ($7.1 million) and Moldova being second largest importer of Ukrainian cheese (24% of total; $3.5 million). Cheese imports to Ukraine grew 33.3% y-o-y to 4,320 tons in H1 2017 reflecting more cheese coming from EU under FTZ agreements.

Whole milk products output volume in Ukraine declined 4.6% y-o-y to 205,000 tons in H1 2017 according to State Statistics Service on the back of decreased demand on shorter disposable income, causing potential milk oversupply and further herd reduction in the country. In Russia, the whole milk products output fell 1.9% y-o-y to 1.5 million tons in H1 2017 which also implies stagnating demand for this product group.

Overall dairy product exports from Ukraine boosted 76.7% y-o-y in H1 2017 in value terms, to $117 million, with butter exports accounting for the largest share of 38% in total ($44 million), followed by condensed milk and cream with 35% share in total ($40 million). Cheese exports accounted for 12% in total dairy products exports for the period in value terms ($14 million, up 47% y-o-y). In H1 2017, Ukraine exported 63,200 tons of dairy products (+22.8% y-o-y in volume terms).

The most notable price movement has been the rapid rise in global butter prices in H1 2017, 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.

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 2017 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 2017, Russia produced 67,900 tons of SMP (up 28.7% y-o-y).

In H1 2017, Ukraine boosted SMP exports by 50% y-o-y to 17,900 tons with major importers being China (50% of total, $6.8 million), India (6% of total, $0.9 million) and Malaysia (5% of total, $0.7 million). Ukraine produced 52,500 tons of butter in H1 2017, up 4.6% y-o-y. Ukraine's butter exports more than tripled to 12,300 tons in H1 2017, major importers were Morocco (19% of total, $8.3 million) and Kazakhstan (13% of total, $5.8 million). Butter exports volume from Ukraine are forecasted to increase further in H2 2017 fueled by strong international demand on changing diets.

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2017 and 2016 in thousands Euro.

Selected financial data

	6 m 2017	6 m 2016
I. Revenues	74,435	73,944
II. EBITDA	5,021	3,416
III. Operating profit	1,157	(1,313)
IV. Profit (loss) before tax	2,224	(14,532)
V. Net profit (loss)	1,568	(15,103)
VI. Cash flows provided by (used in) operating activities	5,539	1,225
VII. Cash flows used in investing activities	(1,666)	(787)
VIII. Cash flows (used in) provided by financing activities	(3,422)	(259)
IX. Total net cash flow	451	179
X. Total assets	168,507	168,456
XI. Current liabilities	139,025	134,556
XII. Non-current liabilities	22,950	26,989
XIII. Share capital	3,125	3,125
XIV. Total equity	5,532	6,911
XV. Weighted average number of shares	31,250	31,250
XVI. Profit (loss) per ordinary share, EUR cents	4.71	(48.03)

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	6 m 2017	6 m 2016
Revenue	74,435	73,944
Change in fair value of biological assets	30	(230)
Cost of sales	(60,304)	(62,913)
Gross profit	14,161	10,801
Operating income (expense), net	(13,004)	(12,114)
Operating profit	1,157	(1,313)
Net finance expense and other non-operating income (expense)	1,067	(13,219)
Profit (loss) before tax	2,224	(14,532)
Income tax (expense) benefit	(656)	(571)
Net profit (loss)	**1,568**	**(15,103)**
Other comprehensive income (loss)	(2,950)	5,644
Total comprehensive income	**(1,382)**	**(9,459)**
Net profit (loss) attributable to equity holders of the parent company	**1,471**	**(15,010)**
Weighted average common shares outstanding, in thousand	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**4.71**	**(48.03)**

Revenue

The Group managed to increase revenues in euro terms for the first time in the last three years benefiting from calmed currency exchange rates against operational currencies and effective participation in the international trade of butter and dry milk products. Thus, the Group's EUR-denominated revenue increased c. 1% y-o-y to EUR 74.4 million. On the back of overall 27% y-o-y increase in dairy products prices in hryvnia terms (the same growth rate in euro terms) in Ukraine and 16% y-o-y increase in rouble terms (even higher growth rate in euro terms rouble revalued against euro on average by 18% y-o-y in H1 2017) in Russia, the Group managed to significantly increase a sale prices for finished goods in line with the general markets trends over the reported period.

In H1 2017, Ukraine enjoyed 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 two and half times in volume terms and skyrocketed almost five times in value terms in H1 2017, to EUR 1.2 million. The Group's skimmed milk powder (SMP) exports also performed outstanding good results in H1 2017, with export volume growth of 43% y-o-y and value growth of 81% y-o-y. The Group's average price for SMP increased the most among other segments over the period, by 42% y-o-y in euro terms. The Group's H1 2017 cheese export value grew 6% y-o-y, although export volume declined 15% y-o-y, implying increasing exports of higher value added product.

The Group's overall cheese sales volumes declined 35% y-o-y in H1 2017 due to lower volume sales both in Ukraine and Russia on the back of still weak domestic demand for hard cheese. The Group managed to increase its average cheese price by 27% y-o-y in euro terms in H1 2017, as there was soft devaluation of the Ukrainian hryvnia and Russian rouble even revalued over the reported period. As a result, despite a considerable rise in the cheese average price and boosted butter exports, the Group's cheese&butter segment revenue dropped 14% to EUR 20.8 million.

WMP segment still being the largest contributor to the Group's revenues demonstrated a 6% drop in value terms, fueled mostly by the weak demand on the Group's key operational markets. WMP sales volumes declined 29% y-o-y due to drop in volumes sales in Russia (-28% y-o-y) and in Ukraine (-37% y-o-y) driven by strategic changes in product mix to find new opportunities for import substitution.

Positive trends in the global dairy market contributed to an 88% value rise in the Ingredients segment paving path for further recovery for H2 2017. For more information on the above changes, please refer to section *Overview of Operations in H1 2017 and Outlook for the Year 2017*.

Breakdown of the Group's consolidated revenue by product in H1 2017 and H1 2016

	2017		2016		2017 vs. 2016	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	20,768	28%	24,093	33%	(3,325)	-14%
Whole milk products	39,868	53%	42,436	57%	(2,568)	-6%
Ingredients and other	13,799	19%	7,415	10%	6,384	86%
Total	**74,435**	100.0%	**73,944**	100.0%	**491**	0.9%

In the total revenue, cheese and butter sales accounted for 28%, whole milk products for 53% (33% and 57% respectively in the first half of 2016).

Cost of sales and Gross profit

Cost of sales declined by c. 4% to EUR 60 million. The revaluation of Russian rouble and cost optimization in Ukraine contributed to a drop in the cost of sales, despite a rise in the raw milk prices in Russia (+16% y-o-y) and Ukraine (+ 40% y-o-y).

Despite growing raw milk prices, such revaluation led to a 9% 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 70% in H1 2016 to 63% in H1 2017. For more information on the raw milk prices and supply, refer to section *Dairy Markets*.

Due to the same currency revaluation, labor costs decreased by 27%. Decrease in transportation costs (17%) was due to reduction in processing volumes by the Group's largest production subsidiary, Milkiland Ukraine. 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 13% of total raw milk intake in H1 2017 (flat y-o-y).

Breakdown of the Group's cost of sales in H1 2017-2016, '000 EUR and %

	2017		2016	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	46,806	62.7%	51,372	69.5%
Wages and salaries	2,637	3.5%	3,628	4.9%
Depreciation	4,213	5.6%	4,786	6.5%
Transportation costs	976	1.3%	1,181	1.6%
Gas	1,679	2.3%	1,872	2.5%
Other	3,993	5.6%	74	0.1%
Total	**60,304**	**81.1%**	**62,913**	**85.1%**

The Group's gross profit increased by 31% to EUR 14 million due to a drop in COGS and slight increase in revenues, with the gross margin of 19.0% against 14.6% in the first half of 2016.

Profit from operations and EBITDA

A positive effect put by higher EUR-denominated revenue and the lower share of raw milk costs in the total revenue on the gross margin in the first half of 2017 resulted in an increase in the Group's EBITDA by 47% to c. EUR 5.0 million, EBITDA margin constituted 6.7% in H1 2017 vs. 4.6% in H1 2016.

The Group's Russian business EBITDA increased by 28% y-o-y thanks to the factors listed above. Ukrainian business EBITDA in H1 2017 remained positive in absolute terms (EUR 1.1 million, +5% y-o-y), however the margin improved to 5.5% in H1 2017 compared to 4.9% in H1 2016. Contrary to H1 2016, Polish segment EBITDA improved significantly (EUR 0.5 million vs only EUR 0.064 million in the same period of 2016), implying impressive country margin of 8.0% in H1 2017. The reasons behind this were the increase of capacity utilization of Ostrowia cheese plant due to realization of the tolling contract with German producer together with better price situation with dry milk products.

Selling and distribution expenses and administrative expenses dropped 1% and 2% respectively remaining almost unchanged y-o-y in euro terms over the reported period.

Profit before tax and Net profit

In the first half of 2017, financial expense related to bank borrowings declined 35% thanks to currency translation effects. The only slight devaluation of Ukrainian hryvnia and Russian rouble revaluation against euro and US dollar resulted in a non-cash foreign exchange gain of EUR 6.5 million (compared to zero in H1 2016).

As a result of the considerable foreign exchange gain, the Group recognized income before tax of EUR 2.2 million compared to loss of EUR 14.5 million in H1 2016. Net profit for the first half of 2017 accounted for EUR 1.6 million.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2017	December 31, 2016	June 30, 2016
Cash and cash equivalents	1,459	1,044	1,120
Trade and other receivables	24,830	20,042	22,360
Inventories	12,434	12,878	13,514
Other current assets	10,937	8,269	8,779
Total current assets	**49,660**	**42,233**	**45,773**
PPE	91,354	98,763	112,777
Deferred income tax assets	2,571	2,223	2,966
Other non-current assets	5,085	5,266	5,552
Total non-current assets	**117,847**	**126,223**	**140,336**
Total assets	**167,507**	**168,456**	**186,109**
Trade and other payables	49,507	43,054	35,050
Short-term loans and borrowings	82,000	87,293	104,608
Other current liabilities	7,519	4,209	2,188
Total current liabilities	**139,025**	**134,556**	**141,846**
Loans and borrowings	11,266	14,993	3,045
Deferred income tax liability	11,552	11,771	14,536
Other non-current liabilities	132	225	202
Total non-current liabilities	**22,950**	**26,989**	**17,783**
Total liabilities	**161,975**	**161,545**	**159,629**
Share capital	3,125	3,125	3,125
Revaluation and other reserves	78,277	83,598	82,845
Retained earnings	(76,953)	(80,921)	(60,641)
Total equity attributable to equity holders of the parent company	**4,449**	**5,802**	**25,329**
Non-controlling interests	1,083	1,109	1,151
Total equity	**5,532**	**6,911**	**26,480**
Total liabilities and equity	**167,507**	**168,456**	**186,109**

Assets

Due to the Ukrainian hryvnia and Russian rouble revaluation in the first half of 2017, The Group's EUR-denominated current assets remained increased from EUR 42.2 million as of December 31, 2016 to c. EUR 50 million as of June 30, 2017, non-current assets decreased by c.7% resulting in flat total assets.

A y-o-y increase in other taxes receivable by 48% represent an increase in VAT recoverable due to higher exports from Ukraine, this figure was also increased by 27% compared to the year-end in 2016.

Trade and other receivables grew by 24% since the beginning of year with trade accounts receivable 1% lower but other receivables 78% higher than on December 31, 2016.

Higher depreciation (+69% y-o-y) negatively affected PPE for the reported period, however since most of the Group's production assets are located in Ukraine and Russia, stable UAH and RUB revaluation resulted in only an 8% decrease in PPE.

Liabilities and equity

Total liabilities increased were flat since the beginning of the year resulting from a 4% growth in current liabilities but 16% decline in non-current liabilities. Long-term borrowings fell 25% since the beginning of the year, to EUR 11.3 million. The Group's short-term loan portfolio fell 6% as a result of foreign exchange differences. During the first half of 2017, the Group repaid EUR 4.9 million and attracted EUR 1.5 million of loans.

As a result of the above movements, during the first six months of 2017 the net debt of the Group declined c. 9% since the year beginning and stood at EUR 91.8 million as of June 30, 2017 (EUR 101.2 million as of December 31, 2016). Total Debt Ratio constituted 0.96 vs. 0.96 on June 30, 2017 and December 31, 2016.

The Group's total equity decreased by c. 20% to EUR 5.5 million in H1 2017 since the beginning of the year, on the back of currency fluctuations. Net debt/equity ratio was 16.7 as of June 30, 2017 vs. 14.6 as of December 31, 2016.

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

Obtainment of the Demand Notice under the Deed of Guarantee dated 14 August 2012 by JSC "Ostankino Dairy" and Milkiland N.V.

On 6-th of January 2017, the Board of Directors of Milkiland N.V. ("the Company") informed that JSC "Ostankino Dairy" ("Ostankino") and the Company received the Demand Notice under the Deed of Guarantee made between Ostankino as a Guarantor, and Raiffeisen Bank International AG, as an Agent of the financial parties dated 14 August 2012, in relation to the Facilities Agreement between Milkiland N.V. and UniCredit Bank Austria AG and ZAO Raiffeisenbank ("the Lenders") dated 16 December 2011 ("the Facilities Agreement").

Since the beginning of 2015, Milkiland N.V. has been continuing the negotiations with the Lenders in order to restructure the indebtedness under the Facilities Agreement.

The total principal sum of indebtedness to the Lenders as of 30 June 2017 stood at USD 58.6 million, full amount was overdue.

Changes in the Board of Directors of Milkiland N.V.

On 15-th January 2017, the Board of Directors of the Company informed that the Company received the notification of the termination of appointment of Mr. Vitaliy Strukov as the Non-executive director of the Board of Directors of Milkiland N.V. since 10 January 2017 due to Mr. Strukov's involvement in new project (outside the dairy industry).

Service agreement between Milkiland N.V. and Mr. Strukov dated 24 December 2013 was terminated in a good faith by mutual consent of the parties.

Milkiland fulfilled the conditions of the restructuring of the indebtedness to one of the largest creditors of the Group

On 12 March 2017, the Board of Directors of the Company informed that by selling of two agri-subsidiaries of the Group controlled by the Group's main agri-subsidiary LLC Milkiland-Agro, namely PJSC "Iskra" and LLC "Uspikh-Mena", in November 2016 and February 2017, respectively, Milkiland fulfilled the conditions of the Amendment agreement to the Loan Facility Agreement with PJSC Credit Agricole Bank (hereinafter, "the Creditor" and "the Restructuring agreement").

The Restructuring agreement between the Creditor and DE "Milkiland Ukraine", ALLC "Nadiya", LLC "Uspikh-Mena" and PJSC "Iskra" on restructuring of a loans in the total amount of USD 14.456 million (EUR 13.1 million) was signed in July 2016.

According to the Restructuring agreement, the repayment term was extended until 30 June 2019, lowered interest rates were applied to the borrower's indebtedness. It was also required to sell the above mentioned 2 agri-subsidiaries of the Group not later than 30 March 2017 in order to secure the repayment to the Creditor of the principal amount of the indebtedness in the sum not less than USD 4.5 million.

As the result of selling deals of PJSC "Iskra" and LLC "Uspikh-Mena" to third parties buyers, the sum of USD 4.854 (EUR 4.384) million was repaid to the Creditor. Additional USD 0,511 (EUR 0.462) million in 2016 were saved due to lowered interest expenses and also repaid to the Bank. Outstanding amount of the principal sum of indebtedness to the Creditor as of 1 March 2017 stood at USD 9.1 (EUR 8.22) million.

Obtainment of the information on filing the bankruptcy petition by PJSC Bank "Vozrogdenie" against JSC "Ostankino Dairy"

On 19 April 2017, the Board of Directors of the Company informed that Milkiland N.V. and Ostankino received the information that Public JSC Bank "Vozrogdenie" ("the Creditor") filed the bankruptcy petition against Ostankino to Arbitrage Court of the City of Moscow dated 28 March 2017.

This petition claiming the introduction of surveillance procedure and the regime of temporary administration of Ostankino according to the Russian legislation, due to inability of Ostankino to repay the indebtedness to the Creditor in the total amount of RUB 309.2 million (EUR 5.13 million).

Based at the above mentioned petition, Arbitrage Court of the City of Moscow initiated the legal case on bankruptcy of Ostankino and assigned a date for the first hearings of this case for April 26, 2017.

On April 3, 2017, Milkiland N.V., as a sole owner of Ostankino, by its decision initiated the procedure of the voluntary liquidation of JSC "Ostankino Dairy" and assigned Ludmila Lovenetskaya, as a liquidator of Ostankino.

In order to assure a continuity of operations of Ostankino, new company LLC "Ostankino Dairy", a 100% subsidiary of Milkiland Group, was incorporated. It will be responsible for servicing the contracts with the Group's suppliers and clients in Russia.

Postponement of the publication of the Annual Report of Milkiland Group for 2016

On April 24, 2017, the Board of Directors of Milkiland N.V. informed that the Company received the information from the Company's auditors, namely BDO Audit and Assurance B. V., regarding the additional time required for issuance of an independent auditors report on the consolidated financial statements of Milkiland Group as at 31 December 2016, to be included into the Annual Report of Milkiland Group for 2016.

The reason for this was the necessity of the additional assessment by the auditors of initiated legal case on bankruptcy of JSC "Ostankino Dairy Combine", the main subsidiary of the Group in Russia, and on-going restructuring of the Russian segment of the Group's business.

Due to those facts, the publication of the Annual Report of Milkiland Group for 2016 was postponed until 31 May 2017.

On 19 May 2017, the Board of Directors of Milkiland N.V. informed that on that date the Company received the independent auditor's report on the audit of the consolidated financial statements of Milkiland Group for 2016 from BDO Audit and Assurance B. V.

Due to this fact, the Annual Report of Milkiland Group for 2016 was published on 19 May 2017.

Changes in the Board of Directors

The Annual General Meeting of Shareholders of the Company held on June 30, 2017, 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 2018. 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 2018. 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 2018. 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 2018. The remuneration of Mr. George Christopher Logusch was set in accordance with the remuneration policy of the Company.

(e) 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 2018. 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

Financial arrangements

Signing of the loan restructuring agreement with PJSC "OTP Bank"

On 15 August 2017, the Board of Directors of Milkiland N.V. informed that the amendment agreement to Loan facility agreement between PJSC "OTP Bank" and the Group's subsidiary, PE CF "Prometey" on restructuring of the loan in the total amount of USD 3.85 million (EUR 3.26 million), was signed on 20 July 2017.

According to the Amendment agreement, the repayment term was extended by 7 years until 30 June 2024 and lowered interest rate was applied to the above mentioned indebtedness.

Signing the debt restructuring agreement with Pekao Bank S.A.

On 18 August 2017, the Board of Directors of Milkiland N.V. informed that the Amendment agreement to Revolving Credit Facility agreement and Overdraft Credit Facility agreement between Pekao Bank S.A. ("the Bank"), from one side, and Ostrowia sp. z.o.o. ("the Borrower"), Milkiland EU and UA Trade, all together are the Group's Polish subsidiaries, and the Company, on another side, on restructuring of the indebtedness in the total amount of PLN 7.6 million (EUR 1.8 million), was signed on 31 July 2017.

The Parties agreed that the final repayment of the indebtedness shall be made on 30 June 2018.

In order to secure the repayment of the principal sum of the indebtedness, the monthly repayment schedule was applied. The Borrower also took the obligation to sell the non-core assets in the sum of not less than PLN 0.509 million (EUR 0.12 million) until 28 February 2018 and allocate the obtained proceedings for the repayment to Pekao Bank S.A.

The Parties also agreed to postpone the payment of the interest due and penalty interest accrued to the overdue debt liabilities in the total amount at PLN 0.601 million (EUR 0.143 million) until 30 June 2018.

During of the term of the Amendment agreement, the Bank took the obligation to refrain from debt enforcement of the real property consisting of the production plant of the Borrower.

The Borrower was obliged to submit to the Bank the new debt repayment proposal by 15 April 2018.

Strategic Plans and Initiatives for H2 2017

The Group's management plan to further implement in the second half of 2017 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.

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).
- 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.
- To continue an efforts on production of cheese product in Ostrowia cheese plant in Poland in order to increase the capacity utilisation of this facility.

Raw materials base:

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

New markets and distribution:

- Further develop a distribution network in Kazakhstan, China, Israel, MENA, EU countries.
- Seek the new opportunities of profitable participation in the international trade of dairy goods in the global market.
- Use an opportunities of export to EU of Ukrainian made dairy, including mould cheese, within the quotas agreed under the FTZ agreement between Ukraine and EU.

Sales and marketing:

- Increase of sales in Ukrainian dairy market by means of promotion of new dairy goods, including in the economy segment of the market, due to shifting habits of Ukrainian customers.
- Advance with the presence of Ostankino products on the shelfs of key account clients, including in the regional markets of Russia.
- Promotion of Polish and Ukrainian made cheese of the Group in the Polish market.

REPRESENTATION

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 30 June 2017 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 2017 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 2017

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 2017

Condensed Consolidated Interim Financial Statements

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(All amounts in euro thousands unless otherwise stated)

Condensed consolidated interim statement of financial position

	Notes	30 June 2017 (unaudited)	31 December 2016 (audited)	30 June 2016 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	1,459	1,044	1,120
Trade and other receivables	7	24,830	20,042	22,360
Inventories	8	12,434	12,878	13,514
Current biological assets	12	1,770	1,096	2,505
Current income tax assets		633	434	493
Other taxes receivable	9	8,534	6,739	5,781
		49,660	**42,233**	**45,773**
Non-Current Assets				
Goodwill	10	1,540	1,558	1,859
Property, plant and equipment		91,354	98,763	112,777
Investment property		18,837	19,971	19,041
Non-current biological assets	12	1,337	1,383	1,484
Other intangible assets		2,208	2,325	2,209
Deferred income tax assets		2,571	2,223	2,966
		117,847	**126,223**	**140,336**
TOTAL ASSETS		**167,507**	**168,456**	**186,109**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	49,506	43,054	35,050
Current income tax liabilities		569	71	59
Other taxes payable	14	6,950	4,130	2,129
Short-term loans and borrowings		82,000	87,293	104,608
		139,025	**134,548**	**141,846**
Non-Current Liabilities				
Loans and borrowings	15	11,266	14,993	3,045
Deferred income tax liability		11,552	11,771	14,536
Other non-current liabilities		132	230	202
		22,950	**26,994**	**17,783**
Total liabilities		**161,975**	**161,542**	**159,629**
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		66,696	69,208	77,120
Currency translation reserve		(37,106)	(34,297)	(42,962)
Retained earnings		(76,953)	(80,918)	(60,641)
		4,449	**5,805**	**25,329**
Non-controlling interests		**1,083**	**1,109**	**1,151**
Total equity		**5,532**	**6,914**	**26,480**
TOTAL LIABILITIES AND EQUITY		**167,507**	**168,456**	**186,109**

(All amounts in euro thousands unless otherwise stated)

Condensed consolidated interim statement of comprehensive income

	Notes	2017 (unaudited)	2016 (unaudited)
Revenue	17	74,435	73,945
Change in fair value of biological assets		30	(230)
Cost of sales	18	(60,304)	(62,913)
Gross Profit		**14,161**	**10,802**
Selling and distribution expenses	19	(6,398)	(6,469)
Administrative expenses	20	(6,259)	(6,370)
Other expenses, net	21	(347)	725
Operating profit/(loss)		**1,157**	**(1,312)**
Finance income	22	6494	1
Finance expenses	23	(5,395)	(13,222)
Profit/(loss) before tax		**2,224**	**(14,533)**
Income tax	24	(656)	(571)
Net profit/(loss) for the year		**1,568**	**(15,104)**
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(2,950)	5,643
Total comprehensive loss		**(1,382)**	**(9,461)**
Loss attributable to:			
Owners of the Company		1,471	(15,010)
Non-controlling interests		97	(94)
		1,568	**(15,104)**
Total comprehensive loss attributable to:			
Owners of the Company		(1,356)	(9,321)
Non-controlling interests		(26)	(140)
		(1,382)	**(9,461)**
Earnings per share (EURO cent)		4,71	(48,03)

(All amounts in euro thousands unless otherwise stated)

Condensed consolidated interim statement of cash flows

	Note	2017 (unaudited)	2016 (unaudited)
Cash flows from operating activities:			
Gain/Loss before income tax		**2,224**	**(14,533)**
Adjustments for:			
Depreciation and amortization	21	4,735	5,298
Loss from disposal and write off of inventories	21	594	351
Change in provision and write off of trade and other accounts receivable	21	(12)	124
Change in provision and write off of unrealised VAT	21	104	176
Gain/(loss) from write off, revaluation and disposal of non-current assets	21	(871)	(625)
Change in fair value of biological assets		(30)	230
Operational foreign exchange results, net	21	(440)	6
Finance income	22	(6,494)	(1)
Finance expenses	23	5,395	13,220
Write off of accounts payable	21	(1)	(14)
Operating cash flow before movements in working capital		**5,204**	**4,232**
Increase/ Decrease in trade and other accounts receivable		(2,767)	(6,775)
Decrease/ Increase in inventories		(632)	(1,490)
Increase/ Decrease in biological assets		(691)	(1,257)
Increase in trade and other payables		3,706	10,415
Decrease/ Increase in other taxes receivable		26	(735)
Decrease in other taxes payable		1,581	11
Net cash provided by/(used in) operations:		**6,427**	**4,401**
Income taxes paid		(138)	(393)
Interest received		2	46
Interest paid		(752)	(2,829)
Net cash provided by/(used in) operating activities		**5,539**	**1,225**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(1,666)	(787)
Net cash used in investing activities		**(1,666)**	**(787**
Cash flows from financing activities			
Proceeds from borrowings	15	1,463	14,154
Repayment of borrowings	15	(4,885)	(14,399)
Commission paid and fair value adjustment			(14)
Net cash (used in)/provided by financing activities		**(3,422)**	**(259)**
Net increase in cash and equivalents		**451**	**179**
Cash and equivalents, beginning of the period	6	**1,044**	**907**
Effect of foreign exchange rates on cash and cash equivalents		(36)	34
Cash and equivalents, end of the period	6	**1,459**	**1,120**

(All amounts in euro thousands unless otherwise stated)

Condensed consolidated interim statement of changes in equity

	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 2016	**3,125**	**48 687**	**(48 651)**	**79 866**	**(48 377)**	**34 650**	**1 291**	**35 941**
Loss for the period	-	-	-	-	(15 010)	**(15 010)**	(94)	**(15 104)**
Other comprehensive loss, net of tax effect	-	-	5 689	(0)	-	**5 689**	(46)	**5 643**
Total comprehensive loss for the period	**-**	**-**	**5 689**	**(0)**	**(15 010)**	**(9 321)**	**(140)**	**(9 461)**
Realised revaluation reserve, net of income tax	-	-	-	(2 746)	2 746	**-**	-	**-**
Balance at 30 June 2016	**3,125**	**48 687**	**(42 962)**	**77 120**	**(60 641)**	**25 329**	**1 151**	**26 480**
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 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**

Notes to Condensed Consolidated Interim Financial Statements

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 2017 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 2017.

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.

As at 31 March 2017 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 2017, the Group employed 3,594 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 2017	31 December 2016	30 June 2016
MLK Finance Limited	Cyprus	Trade	100.0%	100.0%	100.0%
Milkiland Intermarket (CY)	Cyprus	Trade	100.0%	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	Trade	100.0%	100.0%	100.0%
Milkiland Corporation	Panama	Trade	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	Managing/Trade	100.0%	100.0%	100.0%
Ostrowia sp. z.o.o	Poland	Production entity	100.0%	100.0%	100.0%
JSC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Milkiland RU	Russia	Managing/Trade	100.0%	100.0%	100.0%
LLC Moloko-Kursk	Russia	Production entity	100.0%	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	Managing	100.0%	100.0%	100.0%
DE Aromat	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Prometey	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Ros	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	Trade	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	Production entity	76.0%	76.0%	76.0%
PrJSC Gorodnia Milk Plant	Ukraine	Production entity	72.3%	72.3%	72.3%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Milkiland Ukraine	Ukraine	Trade	100.0%	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	Production	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	Managing	100.0%	100.0%	100.0%
PrJSC Transportnyk	Ukraine	Services provider	70.3%	70.3%	70.3%
LLC Milkiland Agro	Ukraine	Agricultural	100.0%	100.0%	100.0%
PrJSC Iskra Plus	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%
LLC Novomoskovsk Dairy	Russia	Production entity	100.0%	100.0%	100.0%
UA TRADE Sp. z o.o.	Poland	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 Kholod Property	Ukraine	Production entity	100.0%	-	-
LLC Syrnyy Mayster	Ukraine	Production entity	100.0%	-	-
LLC Cross Value	Marshall Isl.	Trade	100.0%	100.0%	-

During the six months ended 30 June 2017, the Group finalized registration of new subsidiaries LLC Kholod Property, LLC Syrnyy Mayster in Ukraine and LLC Ostankino Dairy in Russia.

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 2017 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 2016, 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 2016.

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 2017 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 2017, 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 sell the dry milk products to the export markets.

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 2017 the in-house milk production covered c.13% 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 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
As at 31 December 2016	1.0541	28.6619	63.8111	4.4240
As at 30 June 2016	1.1102	27.5934	71.2102	4.4255
Average for six months ended 30 June 2016	1.1158	28.4090	78.3669	4.3663

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.

(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:

	2017				**2016**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	48,183	19,785	6,520	74,488	48,074	21,066	5,658	74,798
Inter-segment revenue			(53)	(53)	-	-	(853)	(853)
Revenue from external customers	48,183	19,785	6,467	74,435	48,074	21,066	4,805	73,945
EBITDA	3,843	1,090	518	5,451	**3,008**	**1,040**	**64**	**4,112**
EBITDA margin	8%	6%	8%	7%	6%	5%	1%	6%
Depreciation and amortisation	1,412	2,409	914	4,735	1,446	2,935	917	5,298

(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:

	2017				2016			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	20,768	39,868	13,852	74,488	24,513	42,436	7,849	74,798
Inter-segment revenue	-	-	(53)	(53)	(420)	-	(433)	(853)
Revenue from external customers	20,768	39,868	13,799	74,435	24,093	42,436	7,416	73,945
EBITDA	**3,559**	**1,913**	**(21)**	**5,451**	**1,810**	**2,447**	**(145)**	**4,112**
EBITDA margin	17%	5%	0%	7%	8%	6%	(2%)	6%
Depreciation and amortisation	1,200	1,642	1,893	4,735	1,978	2,062	1,258	5,298

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

	2017	2016
EBITDA	5,451	4,112
Other segments EBITDA	(430)	(695)
Total segments	**5,021**	**3,416**
Depreciation and amortisation	(4,735)	(5,298)
Loss from disposal and impairment of non-current assets	871	(56)
Finance expenses	(5,427)	625
Finance income	6494	(13,222)
Profit/(loss) before tax	**2,224**	**(14,532)**

(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.

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

Entities under common control:	**2017**	**2016**
Revenue		

The outstanding balances due from related parties were as follows:

Entities under common control:	**30 June 2017**	**31 December 2016**	**30 June 2016**
Trade accounts receivable	281	281	253
Other financial assets	2,333	4,323	3,469
Other accounts receivable	101	224	85

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the six months ended 30 June 2017 paid or payable to key management for employee services is EUR 95 thousand (2016: EUR 335 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 2017	**31 December 2016**	**30 June 2016**
Short term deposits		0	38
Cash in bank and cash on hand	1,459	1,044	1,082
Total cash and cash equivalents	**1,459**	1,044	**1,120**

(All amounts in euro thousands unless otherwise stated)

7. Trade and other receivables

	30 June 2017	31 December 2016	30 June 2016
Trade accounts receivable	12,578	13,386	13,814
Other financial assets	9,958	10,752	11,249
Allowance for doubtful debts	(9,392)	(9,707)	(9,972)
Total financial assets within trade and other receivables	**13,144**	**14,431**	**15,091**
Advances issued	3,697	1318	3,675
Other receivables	8,673	4,873	4,352
Allowance for doubtful debts	(709)	(580)	(758)
Total trade and other accounts receivable	**24,830**	**20,042**	**22,360**

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 2017	31 December 2016	30 June 2016
Raw and other materials	3,814	4,902	4,834
Finished goods and work in progress	8,473	7,445	8,517
Agriculture produce	147	531	163
Total inventories	**12,434**	**12,878**	**13,514**

9. Other taxes receivable

	30 June 2017	31 December 2016	30 June 2016
VAT recoverable	8,166	6,286	5,653
Payroll related taxes	77	75	78
Other prepaid taxes	291	378	50
Total other taxes receivable	**8,534**	**6,739**	**5,781**

(All amounts in euro thousands unless otherwise stated)

10. Goodwill

	2017	2016
Balance at 1 January	1,558	1,746
Foreign currency translation	(18)	113
Balance at 30 June	**1,540**	**1,859**

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 2017 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 93 thousand (2016: EUR 115 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 2017 and 2016 biological assets comprise the following groups:

	30 June 2017		31 December 2016	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	2,836	945	3,078	956
Other livestock		2		4
Total biological assets of animal breading	**2,836**	**947**	**3,078**	**960**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Wheat	-		-	-
Other	-	131	-	136
Total biological assets of plant growing	**-**	**131**	**-**	**136**
Total current biological assets	**-**	**1,078**	**-**	**1,096**
Non-current biological assets	Units	Amount	Units	Amount
Cattle			1,996	1,383
Other livestock	1,672	1,301		
Total non-current biological assets	**1,672**	**1,301**	**1,996**	**1,383**

(All amounts in euro thousands unless otherwise stated)

13. Trade and other payables

	30 June 2017	31 December 2016	30 June 2016
Trade payables	18,487	16,076	16,145
Accounts payable for fixed assets	-	-	1
Interest payable	13,826	11,511	7,624
Other financial payables	-		(504)
Total financial liabilities within trade and other payable	**32,313**	**27,587**	**23,266**
Wages and salaries payable	1,856	1,798	2,118
Advances received	9,154	7,682	3,414
Other accounts payable	5,024	5,088	4,619
Accruals for employees' unused vacations	1,159	899	1,633
Total trade and other payables	**49,506**	**43,054**	**35,050**

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 2017	31 December 2016	30 June 2016
VAT payable	3,251	1,355	703
Payroll related taxes	2,841	2,119	1,313
Other taxes payable	858	656	113
Total other taxes payable	**6,950**	**4,130**	**2,129**

15. Loans and borrowings

	30 June 2017	31 December 2016	30 June 2016
Current			
Interest bearing loans due to banks	80,684	85,448	103,037
Loans from non-financial institutions		-	-
Bank overdrafts	7	435	469
Finance leases	1,309	1,410	1,102
Total current borrowings	**82,000**	**87,293**	**104,608**
Non-current			
Interest bearing loans due to banks	11,120	14,919	2,055
Finance leases	146	74	990
Total non-current borrowings	**11,266**	**14,993**	**3,045**
Total borrowings	**93,266**	**102,286**	**107,653**

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

	2017	2016
Balance at 1 January	**102,286**	**107,471**
Obtained new loans and borrowings	1,463	14,140
Repaid loans and borrowings	(4,885)	(14,399)
Foreign exchange (gain)/loss	(7,125)	441
Balance at 30 June	**93,266**	**107,653**

As at 30 June 2017 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 is as follows:

	2017		2016	
	Number of shares	EUR 000	Number of shares	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
Ordinary shares of 10c each				
At 1 January	31,250,000	3,125	31,250,000	3,125
At 30 June	**31,250,000**	**3,125**	**31,250,000**	**3,125**

(All amounts in euro thousands unless otherwise stated)

17. Revenue

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

	2017	2016
Cheese & Butter	20,768	24,093
Whole-milk products	39,868	42,436
Ingredients	13,799	7,416
Total revenue	**74,435**	**73,945**

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

	2017	2016
Russia	48,279	48,003
Ukraine	16,929	18,201
Poland	5,497	3,860
Other	3,730	3,881
Total revenue	**74,435**	**73,945**

(All amounts in euro thousands unless otherwise stated)

18. Cost of sales

	2017	2016
Raw and other materials	48,806	51,372
Wages and salaries	2,637	3,628
Depreciation	4,213	4,786
Transportation costs	976	1,181
Gas	1,679	1,872
Electricity	1,487	1,854
Social insurance contributions	603	847
Repairs of property, plant and equipment	234	1,006
Water	84	150
Other	2,361	1,857
Changes in finished goods and work in progress	(776)	(5,640)
Total cost of sales	**60,304**	**62,913**

19. Selling and distribution expenses

	2017	2016
Transportation costs	3,638	3,082
Security and other services	166	202
Marketing and advertising	15	559
Wages and salaries	1,445	1,537
Social insurance contributions	372	381
Licence fees	10	19
Rental costs	60	86
Depreciation and amortisation	188	120
Other	504	483
Total selling expenses	**6,398**	**6,469**

(All amounts in euro thousands unless otherwise stated)

20. Administrative expenses

	2017	2016
Wages and salaries	2,756	2,867
Social insurance contributions	507	458
Taxes and other charges	660	772
Representative charges	165	188
Other utilities	80	59
Bank charges	68	217
Repairs and maintenance	90	166
Depreciation and amortisation	334	303
Consulting fees	520	741
Security and other services	238	202
Transportation costs	228	138
Property insurance	13	17
Rental costs	83	148
Communication	64	74
Office supplies	12	18
Other	441	2
Total administrative expenses	**6,259**	**6,370**

21. Other income, net

	2017	2016
Government grants recognised as income	12	578
Rental income	296	51
Gain from write off of accounts payable	1	14
Change in provision and write off of trade and other accounts receivable	12	(124)
Depreciation and amortisation		(88)
Other income, net	322	359
Gain/(loss) from disposal of non-current assets	871	625
Gain/(loss) from disposal and write off of inventories	(594)	(351)
Penalties	(1,603)	(157)
Operational foreign exchange results, net	440	(6)
Change in provision and write off of VAT receivable	(104)	(176)
Total other expenses/(income), net	**(347)**	**725**

22. Finance income

	2017	2016
Finance foreign exchange gain	(6,493)	-
Bank deposits	(1)	(1)
Total finance income	**(6,494)**	**(1)**

(All amounts in euro thousands unless otherwise stated)

23. Finance expenses

	2017	2016
Bank borrowings	3,788	5,809
Other borrowings	54	72
Finance leases	11	41
Discounting of loans	1,527	
Finance foreign exchange loss	15	7,300
Total finance expenses	**5,395**	**13,222**

24. Income tax

	2017	2016
Current income tax	420	637
Deferred income tax	236	(66)
Total income tax	**656**	**571**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2017 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2016: 18%), Russian profit tax was levied at the rate of 20% (2016: 20%), Poland profit tax was levied at the rate of 19% (2016: 19%). In 2017 the tax rate for Panama operations was 0% (2016: 0%) on worldwide income.

25. **Contingent and deferred liabilities**

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 2,208 thousand as at 30 June 2017. 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 4,081 thousand as at 30 June 2017.

Possible additional penalty on this case was calculated in the amount of EUR 407 thousand. But management expects a positive resolution of the case.

Under resolution of the Kiev Court of Appeal dated 28.12.2016 expertise was scheduled, but still didn’t conducted.

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 2017 no additional obligations except for the direct liabilities under the loan contract were recognized in these financial statements.

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 2017 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.

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 2017 the Group has not met requirement in respect of above mentioned covenants. According to the original loan terms signed on December 16, 2011, the Company should repay the whole amount of loan denominated in USD till the end of December 2015. As at 30 June 2017, the value of the principal of the loan in amount USD 58,580 thousand (equivalent EUR 51,332 thousand in original currency) is classified as current interest bearing loans due to banks (note15).

27. Subsequent events

For the information on the Subsequent events, please refer to section *Material Factors and Events after the Reporting Date*.