Milkiland

Annual Report 2018

Contents

FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	**2018**	**2017**	**2016**	**2015**	**2014**
Revenue	132,595	140,411	146,758	191,447	288,725
Cost of sales	(113,200)	(116,988)	(125,592)	(163,793)	(233,837)
Change in fair value of biological assets	111	269	(52)	105	1,405
Gross profit	19,506	23,692	21,114	27,759	56,293
Operating income (expense), net	(29,628)	(23,104)	(26,609)	(54,638)	(56,950)
Operating profit	(10,122)	588	(5,495)	(26,879)	(657)
Net finance expense and other non-operating income (expense)	(10,047)	(7,830)	(31,229)	(46,195)	(73,991)
Profit (loss) before tax	(20,169)	(7,242)	(36,724)	(73,074)	(74,648)
Income tax (expense) benefit	84	(104)	(2,182)	(222)	2,233
Net profit (loss)	(20,085)	(7,346)	(38,906)	(73,296)	(72,415)
Other comprehensive income (loss)	1,959	13,354	9,879	14,643	(6,241)
Total comprehensive income	(18,126)	6,008	(29,027)	(58,653)	(78,656)
Net profit (loss) attributable to equity holders of the parent company	(20,032)	(7,672)	(38,804)	(72,807)	(71,835)
Weighted average common shares outstanding, thousand	31,250	31,250	31,250	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	(64)	(25)	(124)	(233)	(230)

Consolidated balance sheet as at 31 December

EUR thousands	2018	2017	2016	2015	2014
Cash and cash equivalents	334	1,416	1,044	907	10,431
Trade and other receivables	19,172	19,406	20,042	19,506	50,615
Inventories	10,078	8,713	12,878	12,193	17,779
Other current assets	8,282	7,279	8,269	7,985	12,809
Total current assets	37,866	36,814	42,233	40,591	91,634
PPE	90,773	99,679	98,763	117,787	135,401
Investment property	18,070	16,732	19,971	20,065	-
Deferred income tax assets	70	2,472	2,223	3,159	6,366
Other non-current assets	5,130	4,717	5,266	4,948	6,450
Total non-current assets	114,043	123,601	126,223	145,959	148,217
Total assets	151,909	160,415	168,456	186,550	239,851
Trade and other payables	53,971	40,778	43,054	24,659	22,535
Short-term loans and borrowings	83,425	75,800	87,293	103,410	96,389
Other current liabilities	5,417	6,281	4,201	2,469	2,447
Total current liabilities	142,813	122,859	134,548	130,538	121,371
Long-terms loans and borrowings	2,530	10,756	14,993	4,061	5,531
Deferred income tax liability	11,054	13,760	11,771	14,706	18,005
Other non-current liabilities	716	118	230	1,304	351
Total non-current liabilities	14,300	24,634	26,994	20,071	23,887
Total liabilities	157,113	147,493	161,542	150,609	145,258
Share capital	3,125	3,125	3,125	3,125	3,125
Revaluation and other reserves	87,781	90,048	83,598	79,902	71,344
Retained earnings	(97,358)	(81,481)	(80,918)	(48,377)	17,676
Total equity attributable to equity holders of the parent company	(6,452)	11,692	5,805	34,650	92,145
Non-controlling interests	1,248	1,230	1,109	1,291	2,448
Total equity	(5,204)	12,922	6,914	35,941	94,593
Total liabilities and equity	151,909	160,415	168,456	186,550	239,851

Key data, ratios and multiples of the Group as at and for the year ended 31 December

EUR thousands	2018	2017	2016	2015	2014
EBITDA	2,112	10,279	5,443	9,852	17,106
Net Debt	85,621	85,140	101,242	106,564	91,489
EBITDA Margin,%	1.6%	7.3%	4.0%	5.0%	6.0%
Net Profit Margin,%	(15.1%)	(5.2%)	(27.0%)	(38.0%)	(25.0%)
ROE	n/a	(62.8%)	(670.2%)	(211.5%)	(78.6%)
ROA	(53.0%)	(20.0%)	(92.0%)	(181.0%)	(79.0%)
Market Capitalization	1,599	11,538	14,184	10,780	10,851
Enterprise Value (EV)	88,468	97,149	116,535	118,635	104,788
EV / EBITDA	41.89	9.45	21.41	12.04	6.13
EV / SALES	0.67	0.69	0.79	0.62	0.36
Net Debt / Equity	(16.45)	6.59	14.64	2.96	0.97
Net Debt / EBITDA	40.54	8.28	18.60	10.82	5.35
Net Debt / Sales	0.65	0.61	0.69	0.56	0.32
Total Debt Ratio	1.03	0.92	0.96	0.81	0.61
Debt / Equity	(30.19)	11.41	23.36	4.19	1.54
Current Ratio	0.27	0.30	0.31	0.31	0.75
Quick Ratio	0.19	0.23	0.22	0.22	0.61
P/E	(0.08)	(1.41)	(0.28)	(0.15)	(0.15)
EPS, EUR cents	(64.10)	(24.55)	(124.17)	(232.98)	(229.87)

Formulae for calculation of financial indicators

EBITDA	Operating profit (loss) + depreciation and amortization, net of 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 events
NET DEBT	Short-term finance debt + long-term finance debt, net of cash and cash equivalents
EBITDA MARGIN, %	EBITDA/ Revenues
NET PROFIT MARGIN, %	Net profit / Revenues
RETURN ON EQUITY, %	Net Profit / Shareholders equity
RETURN ON ASSETS, %	Net Profit / Total assets
MARKET CAPITALIZATION	Number of shares at end of financial period multiplied by closing price on last trading day of the financial period
ENTERPRISE VALUE (EV)	Market capitalization + net debt + minority interests
TOTAL DEBT RATIO	(Total current liabilities + total non-current liabilities) / Total assets
CURRENT RATIO	Total current assets / Total current liabilities
QUICK RATIO	(Total current assets – inventories) / Total current liabilities
P/E	Closing price on a last trading day of financial year / Earnings per share
EPS	Net profit attributable to equity holders of the parent company / Average number of shares during the financial period

CEO AND CHAIRMAN'S STATEMENT

Dear Consumers, Shareholders, Partners,

We remember the 2018 year as a period when the Group managed to preserve and strengthen positive results achieved in 2017 in the most important spheres, such as the development in new export markets, introduction of new products, as well as further localisation of the production in the key market of Russia.

In particular, Milkiland successfully continues supplies of Kosher dairy products to Israel, made new steps towards the expansion in a Chinese dairy market, strengthened the position in the Central Asia countries markets, namely, in Kazakhstan, Uzbekistan and Kyrgyzstan. The efforts in Israel were reinforced by the introduction of a newly-designed special dairy commodity product, while the efforts in Central Asia were supported by the production and export sales of special types of cheese-like products, produced and exported from Ukraine. During the last year the Group also started supplies of butter and SMP to China. We successfully continued to build up our cheese production in Russia, inter alia by manufacturing of new high-quality types of cheese for our Russian customers.

At the same time, in Russia the Group faced with the biggest undermining issue for its result in 2018. The stagnation of the real disposable income of population in this country in the last year pushed the market towards cheaper FMCG consumption, including in dairy market. This trend together with intensified competition between the local dairy producers, especially in the key accounts channel (retail chains), led to decline in revenue and EBITDA of Ostankino, which is the main production asset of the Group in Russia. Taking into the account that the Group's business in Russia remains the biggest operation of the Group holding over 60% of the consolidated revenues in 2018, the reduced financial results of Ostankino were the main trigger for the correction of Milkiland's top line and noticeable decline of the Group's EBITDA in the last year.

Better macroeconomic situation in Ukraine in 2018 in comparison to the last years led to the recovery of the real income of population (+10% in 2018 on y-o-y basis) and as a result supported the demand for FMCG goods. Despite of these positive trends the increasing competition from the local and EU dairy players narrowed the possibilities of the business growth of Milkiland Ukraine. Having in mind that almost half of this subsidiary's sales in 2018 came from export, the unfavourable global market environment for sales of dry milk products, which is one of the major export goods of Milkiland Ukraine, contributed to the decrease of the top-line and EBITDA of this subsidiary in 2018.

In Poland the Group's Ostrowia plant is plotting its way to earn its share in highly competitive European market. Put in operations in 2014 Ostrowia is still facing challenges of scarce milk supply and underdeveloped sales channels. In 2018 Ostrowia's relied mainly on its dry milk products such as WPC and permeate, thus, adsorbing the unfavorable price dynamics for these goods in EU as well as global market in the last year and in financial terms essentially replicated the result of the previous year. Our key goal towards Polish business is to fully restore its branded goods sales in order to balance the volatility of commodity prices.

Our agricultural division posted positive result in 2018 on EBITDA level, supported with higher milking cows' headcount and yields. Our milk farms in 2018 increased the milk output by c.14% on y-o-y basis and supplied about 15% of total milk intake in Ukraine. Our mid-term strategic goal is reaching 20-25% of own milk supply remains intact.

In the last year we continued the efforts aimed at the settlement of the unresolved issues with the Group's creditors, as well as fulfilment of the conditions of the debt restructuring agreements signed in the previous periods. As the result, the indebtedness level of the Group remained practically on the same level of c. EUR 86 million by the end of 2018 same as a year before. Milkiland has been continuing those efforts since the beginning of 2019 aiming to reach the mutually acceptable decisions with all the creditors in the foreseeable future.

During the foregoing year our team will focus on sustainability of the Group, aiming to deliver a final stabilization of its business and resolution of its development. Here we can count on better export prospects of the Ukrainian and Polish dry milk products on the back of improving global market situation and further expansion to the new export markets. Our team will put an additional attention on the development of the local competence of the Group in the markets of its operations, including by introduction of new, innovative, high value–added dairy goods with the significant competitive potential.

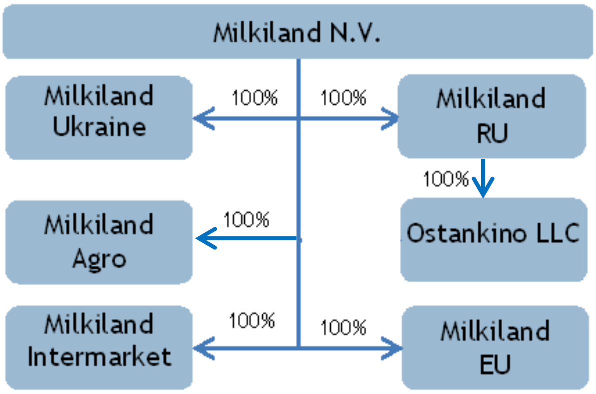
Our people are well-motivated to achieve better results, our assets are in good condition, and we feel a support from our business partners.

Oleg Rozhko, **Chairman of the Board**	**Anatoliy Yurkevych,** **Chief Executive Officer**

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2018

The Group Overview

Milkiland (the Company or the Group) is an international, diversified dairy producer with core operations in Ukraine, Russia and Poland. The Group's holding company Milkiland N.V. is incorporated in the Netherlands, while commercial activities are conducted through its subsidiaries in respective geographies. The Group's aggregated structure chart is presented below.



The Group's business in Ukraine includes dairy business (Milkiland Ukraine controlling 10 dairy plants) and milk farming (Milkiland Agro), also the Company controls extensive milk collection system throughout the country. Milkiland Ukraine collects and processes about one third of the Group's milk, and produces a wide range of products that it sells both locally and overseas. Milkiland Agro is a farming subsidiary of Milkiland N.V. in 2018 operating 4,843 cattle livestock, including c.1,888 milking cows. The total land area cultivated by Milkiland Agro is about 12,000 hectares.

The Group's Russian business consists of Ostankino Dairy (Ostankino) and Milkiland RU. Ostankino is the Moscow-based producer of whole milk products ranking No. 4 in the local Moscow market, which is the largest regional CIS dairy market. Milkiland RU is responsible for distribution of the Group's cheese products in Russia, and development of Milkiland's production base in this country.

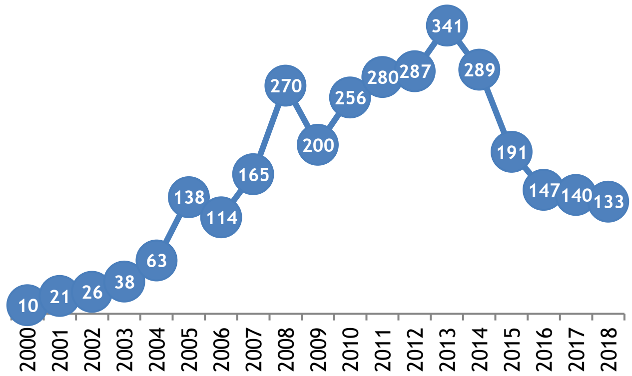
In 2012 the Group launched its EU business having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. This facility is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15,000 tons p.a.), curd, processed cheese, yoghurts and variety of dry milk products.

The Group's Milkiland Intermarket was established in 2012 for the purpose of marketing the Group's products globally. Intermarket's product line mainly consists of dry milk products, butter, and hard cheese.

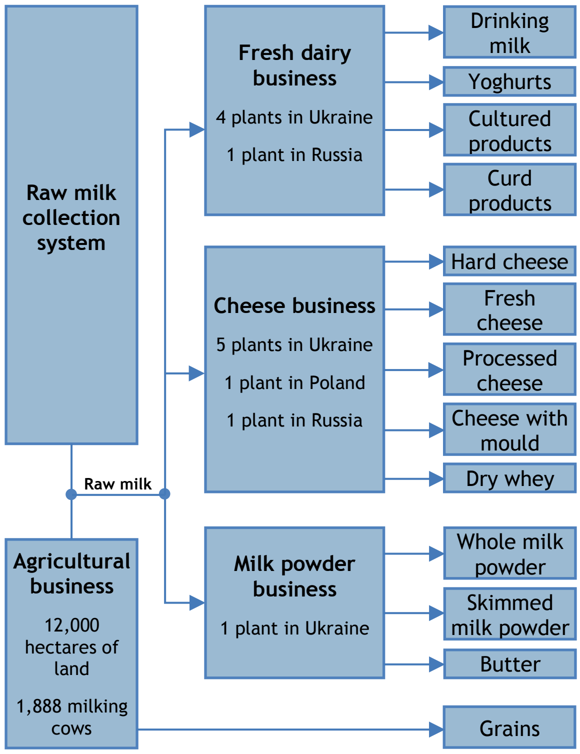
The Group's total annual milk processing capacity exceeds 1.3 million tons. Product line consists of whole milk products, various types of cheese, butter, and dry milk products.

In 2018 Milkiland's consolidated revenues were EUR 133 million representing c. 5.6% slide compared to 2017.

Annual revenue, EUR million



Milkiland develops as universal milk processor with production assets diversified across its local markets and with a significant level of vertical integration, in order to enable reliable access to raw milk – one of the core restraints for dairy producers in Ukraine. Such model makes possible to offer a wide range of quality products to the Group's customers, while controlling costs and sustaining margins. Milkiland's business model is outlined in the diagram below:



Milkiland's milk procurement comprises its own dairy farming business (Milkiland Agro) and extensive raw milk collection system from third party farms and individual farmers. In order to secure larger volumes of in-house milk the Group commenced construction of the modern 6,800 stalls dairy farm in 2012. The first section of a new dairy farm was put in operation. At the end of 2018 the number of milking cows operated by Milkiland Agro totaled to c. 1,888. In 2018 the per cow milk yield improved by c. 5% y-o-y. Milkiland Agro provided for c. 15% of the Group's total milk intake in Ukraine.

In order to secure milk supply from third parties especially small farms and individual farmers Milkiland established a long-term partnership with a national-milk cooperative Moloko-Kraina that has grown to provide c. 38% of the Group's raw milk intake in Ukraine in 2018.

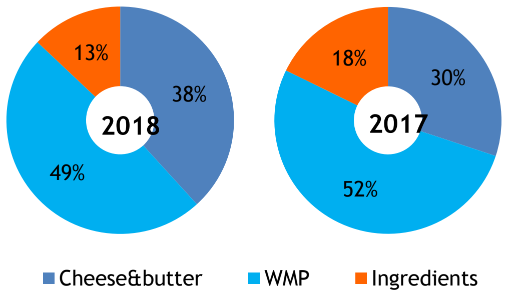
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powders. This approach allows to deliver higher flexibility and better profitability of the business, as Milkiland can quickly switch between product lines.

Whole milk dairy and cheese&butter are Milkiland's core product segments providing together c.87% of the Group's revenues in 2018.

Whole milk dairy business includes Moscow-based Ostankino and 4 dairy plants in Ukraine, producing a wide range of fresh dairy such as drinking milk, kefir, yoghurts, sour cream, ryazhenka, tvorog etc. Milkiland's fresh dairy is sold nation-wide in Ukraine and mainly focused on Moscow city and Central regions of Russia.

The Group's cheese business is comprised of five production units in Ukraine and Polish-based Ostrowia cheese plant. Also, Milkiland controls a cheese plant Rylsk Syrodel in Russia (Kursk region). Milkiland is one of the leading CIS players in this segment offering a wide variety of cheeses such as: hard, fresh, curd and processed cheese. The Group is successful in introducing high value added specialty products such as cheese with white and blue mould, being one of the few local players in this attractive segment. The Group sells its cheese primarily in Ukraine, Russia and Kazakhstan, being one of the major CIS players in this segment.

Revenue breakdown by product in 2018-2017



Milkiland's milk powder business has one of the largest and most efficient drying facilities in Ukraine, operating mainly in high season, when raw milk is produced in large quantities. Milk powder and butter are sold both locally and abroad to more than 30 countries worldwide. Starting from 2012 Milkiland reinforced its positions in this segment by acquiring of Ostrowia plant, which is equipped with state-of-the-art facilities for production of high value added dry whey products (WPC-80 and permeate).

Sales of whey milk powder products are mostly done on B2B basis, with large international traders and food-processing companies being the Group's major customers. B2B sales comprised around 13% in the total revenue in 2018.

All Milkiland's brands are targeting a wide audience of families that are keen of healthy diet and natural dairy products. Most of the Group's products are medium priced and widely affordable.

The Company's key brands are Dobryana, Ostankinskoye, 36 kopeyek, Ostrowia and Milkiland.

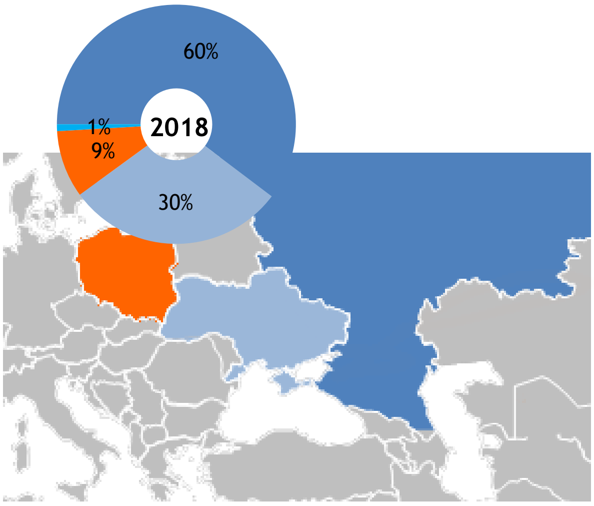
Dobryana is positioned as the Group's international brand actively deployed in Russian, Ukrainian and other CIS markets, as well as in EU and global markets. Dobryana is also the largest selling brand of the Group.

Ostankinskoye is a traditional "medium +" brand for whole milk products produced by Ostankino Dairy, well known by Moscow consumers. Another Group's trademark in Russia is 36 kopeyek, "medium -" brand.

The Group markets products locally in Poland under Ostrowia brand name.

In 2018 all key brands of the Group were expanded with new products, e.g. the Group entered the kosher products market, continued its sales in EU, Chinese and other promising markets.

Revenue breakdown by geography in 2018



In terms of geographical revenue breakdown Russia is the largest market of Milkiland contributing about 60% to the Group's total consolidated revenue in 2018. In Russia the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 30% of the Group's revenue and include all range of dairy products. Poland secured 9% of the Group's total revenue in 2018 while other countries account for 1%.

The geographical breakdown somewhat shifted in 2018 from Ukraine and Russia to other markets in response to the Group's strategy to develop sales on its key operational markets and find new export markets. For more information, refer to *Key Products, Production and Sales* section.

Key Products, Production and Sales

Global dairy market experience some volatility in 2018 with concerns over raw milk supply in key producing countries pushed dairy prices higher in the first half of the year. At the same time prices subsequently reversed in the second half of 2018 as threat of drought in key EU countries, Australia and New Zealand receded.

According to USDA the world milk production expanded by 1.6% in 2018 on y-o-y basis, with cow milk output grew by modest 1.4% y-o-y, to 505 million tons. In spite of drought concerns, which potentially could have resulted in lower fodder availability for dairy cattle, almost all key exporting countries reported higher raw milk production. As such, cow milk output in EU estimated by 0.9%, in New Zealand by 3% higher than in 2017. At the same time, weaker production in the first half of the year resulted in 0.2% lower full year milk production in Australia.

While higher raw milk supply globally resulted in rising dairy produce export availability in 2018, continuing shifts in local consumption habits and import demand affected global dairy trade flows. In particular, according to USDA, world butter exports increased by 6.7% y-o-y in 2018, supported by 2.6% increase in output with New Zealand and USA were the key growth contributors.

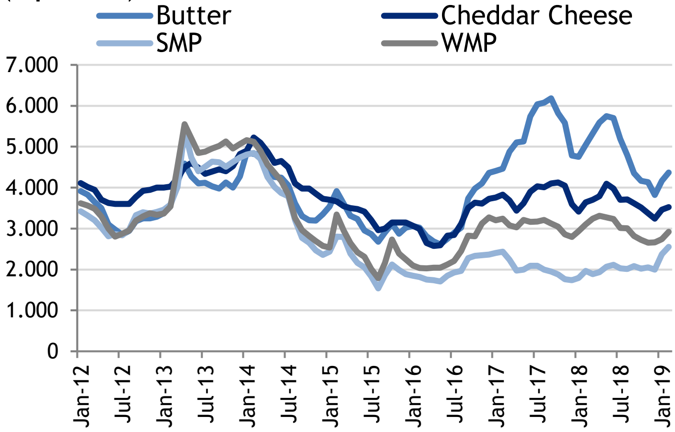
At the same time butter exports from EU countries declined 11% y-o-y amid rise in local consumer demand following further change in perception of butter as not having the negative health effect as earlier considered. In spite of solid double-digit performance in international butter prices in the first half of 2018, average butter quotes declined 9% y-o-y for the full year as prices slipped considerably in the second half of the year amid stronger y-o-y output volumes.

In turn, world cheese production in 2018 grew by 1.8% y-o-y, total exports estimated at 0.4% lower y-o-y because of lower shipments from New Zealand (mainly to Australia and China). Comparably to butter, international cheese prices declined 5% y-o-y on average in 2018 on the back of improved export availability in the second half of the year.

As regards of dry milk products, world skimmed milk powder output seen unchanged from 2017 level. The total growth of exports by 5.6% on y-o-y basis fueled by higher import demand from Mexico and Algeria led to SMP destocking in the USA and EU. The global production of whole milk powder in 2018 declined by 0.3% on y-o-y basis, as 3.9% lower production in EU countries was partly offset by 2.9% increase of output in New Zealand. At the same time, world WMP exports corrected by 3.4% y-o-y last year because of lower demand from Russia and Brazil.

Global SMP and WMP prices were comparatively stable in 2018. As such, last year's SMP prices declined by modest 2% y-o-y on average in 2018, mostly as a result of excessive global supplies and high stock availability. Likewise, international WMP quotes corrected by 3% y-o-y on average last year amid ample supplies, including from New Zealand.

Dynamics of international dairy prices ($ per ton)



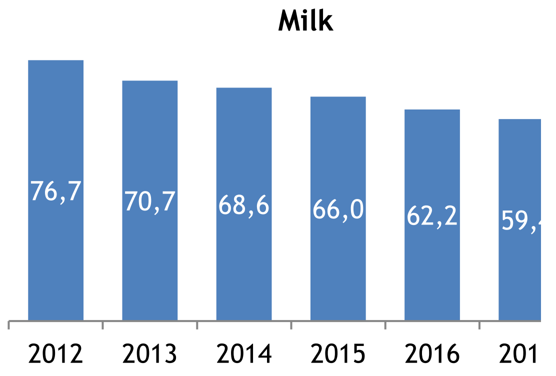
Source: http://www.clal.it

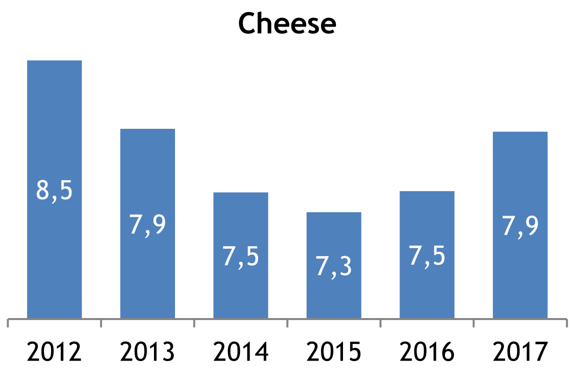
Milkiland defines its home markets as former Soviet Union region, namely Russia and Ukraine. This is one of the largest food markets globally, ranking No.5 after China, EU, USA, and India, and a very dynamic one with strong growth fundamentals. Starting from 2013, upon launching of Ostrowia operations, the Group is also active in the Polish and EU market.

While per capita consumption of dairy products in Russia and Ukraine is significantly lower than in the developed EU countries, there are a lot of opportunities for using local competence to develop in these countries.

In Russia, raw milk output increased 1.5% y-o-y last year, to 30.6 million tons, as a result of better performance of large-scale dairy farms and increasing milk yields, offsetting output reduction by small-scale farms. Russia's total cow's population declined 0.4% y-o-y as of end-2018, continuing a long-term declining trend. In turn, as a result of growing raw milk output volumes Russia's farm-gate raw milk prices declined 6.7% y-o-y on average in 2018, to RUB 22.9/kg (-16.9% y-o-y in EUR terms, to EUR 0.31/kg).

Per capita consumption of dairy in Russia, kg

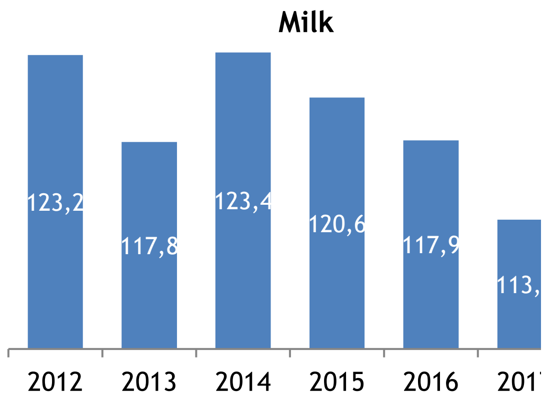




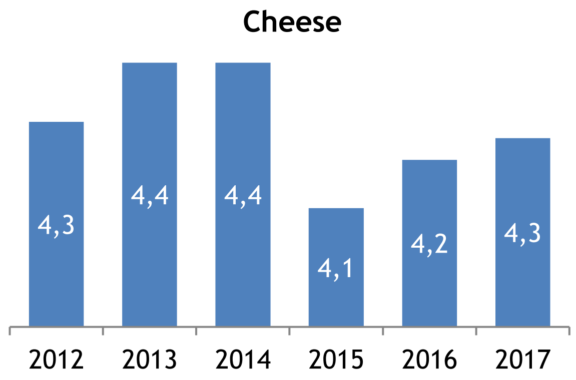
Source: http://www.clal.it

While total cow's population in Ukraine also further declined by 2.5% y-o-y in 2018, total raw milk production also corrected 1.8% y-o-y to c.10 million tons, as milk yields improvements at large-scale farms was offset by output decline in households' sector. As a result of continuous stagnation in raw milk production in Ukraine, local farm-gate raw milk prices grew 6% y-o-y, to UAH 8.6/l (unchanged y-o-y in EUR terms, at EUR 0.27/kg).

Per capita consumption of dairy in Ukraine, kg



Source: http://www.clal.it



Source: http://www.clal.it

In Poland, in contrast to Russia and Ukraine, total cows population improved 2.8% y-o-y. As a result, cows' raw milk deliveries to dairies improved 2.6% y-o-y, to 11.9 million tons. As a result of growing raw milk supply, local farm-gate milk prices declined 1.2% y-o-y, to EUR 0.32/kg.

Milkiland is active in all main segments of the dairy market. Contrary to many players focusing on a certain market segment, the Group welcomes diversification, as additional flexibility across the product line helps to manage prices fluctuation, both in raw materials and end products.

The Group allocates its product portfolio into three main groups based mainly on consumer base, marketing and logistics:

- Whole milk product group (white palette) includes all types of packaged fresh dairy with relatively short shelf life;
- Cheese and butter group (yellow palette) are in general longer shelf life consumer products that could be sold in package, or repackaged in retail outlets, or by weight;
- Ingredients are mainly B2B dairy products sold in bulk such as skimmed milk powder, dry whey, WPC-80, permeate, etc. Also, this segment included agricultural products of Milkiland's farms sold to third parties.

Milkiland's core strategic product groups are whole milk products and cheese where the Group sees the most significant growth potential. Butter and milk powder are opportunistic products that are produced for the purposes of diversification and flexibility, in periods when prices are attractive, and there is a surplus of raw milk in the market.

Whole Milk Products Segment

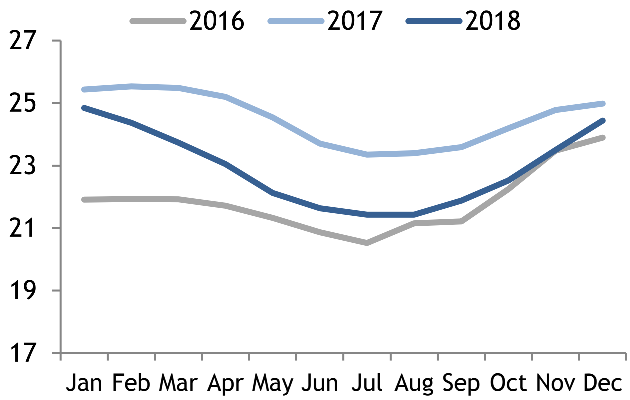
Whole milk is the largest and the most diverse dairy segment in the CIS region. It includes a variety of products such as drinking milk and highly popular cultured products (sour cream, kefir, ryazhenka etc.), and also curd based snacks (tvorog, curd desserts etc.). Yoghurts are a relatively new product to the market, but their consumption has been developing.

In Russia, restrictions introduced by Russian authorities on food products imported from a number of countries, including the EU and Ukraine, contributed to higher demand for locally produced food products. As such, Russia imports of whole milk products declined by c. 21% y-o-y in natural terms in 2018. At the same time, production of whole milk products last year stood mixed. While drinking milk output grew 3.6% on y-o-y basis and curd cheese output improved by c. 1% y-o-y, production of different types of fermented milk products, including kefir and sour cream declined by c. 1-4% on y-o-y basis.

Generally, the decline in disposable income of Russian population in 2018 limited local dairy prices growth potential. Likewise, prices for curd cheese in Russia improved 2.6% y-o-y last year in RUB terms, for sour cream – by 2.4% y-o-y, while average prices for other fermented milk products added only 1.0% on y-o-y basis. In turn, higher drinking milk output in 2018 even pushed average local price to decline by 0.5% in comparison with 2017.

On the supply side farm-gate raw milk prices in Russia in 2018 declined by 6.7% y-o-y, tempering WMP production costs.

Russia's prices for raw milk in 2016-18 (RUB/kg; incl. VAT)

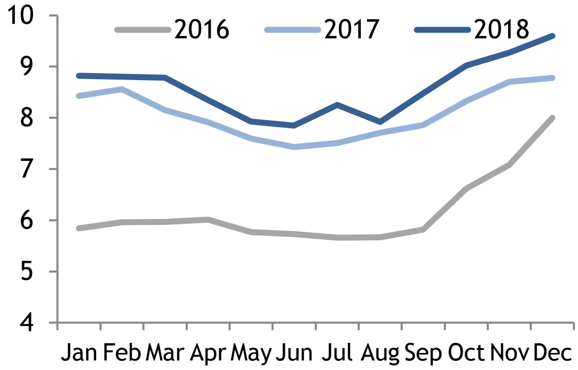


Source: http://www.milkua.info

From the market perspective year 2018 was rather favorable for Ukrainian whole milk product producers. Local WMP output stood at 0.3% higher y-o-y, mainly on account of higher production of drinking milk. Yet improvement in average selling prices was mote material, ranging from +10% for sour cream to +23% for curd cheese on y-o-y basis, respectively.

Average drinking milk prices also improved by solid 17% y-o-y in 2018 in UAH terms, more than offsetting 6% higher y-o-y farm-gate raw milk prices.

Ukraine's prices for raw milk in 2016-18 (UAH/kg; incl. VAT)



Source: http://www.milkua.info

Whole milk dairy remains one of the most competitive segments in the CIS, with a number of global players offering their best products. The Group also invests and develops its own brands. Milkiland's core international brand Dobryana as well as regional brand Ostankinskoye strengthened their positions in Russia and Ukraine.

At the same time the Group's total 2018 whole-milk products sales decreased by 12% in EUR terms, to c. EUR 65 million, mainly triggered by RUB devaluation against EUR and the same contraction of Ostankino's revenues in spite of little-changed sales volumes.

In Ukraine the Group in 2018 was #14 player in the whole-milk products segment with the market share of c.1%. Benefiting from recovery in local dairy prices, Milkiland's WMP sales in Ukraine improved 5% y-o-y in EUR terms, in spite of c. 5% weaker y-o-y UAH exchange rate vs EURO.

Segment's EBITDA dropped to negative value of EUR 0.7 million, mainly due to deterioration of segment's profitability at the Group's Ostankino subsidiary in Russia. The segment's 2018 EBITDA margin thus dropped by 8 pp y-o-y to -1%.

The share of fresh dairy in the Group's 2018 consolidated revenues stood at 49%, 3 pp. less than in 2017.

Whole milk dairy segment remains Milkiland's strong strategic priority, as the Group sees high growth potential here.

Also, according to the Company's estimations, c.40% of fresh dairy consumption in its core markets still falls to home-made products. Such informal consumption will diminish in favor of industrially processed dairy, thus being significant additional growth driver for the Group's business.

The Group believes that it has good assets in right places both in Russia and Ukraine to capitalize on these trends. Ostankino is uniquely located to serve Moscow population with fresh short shelf life dairy. Milkiland's Ukrainian whole milk plants are also favorably positioned nearby large cities such as Kyiv, Kharkiv, Sumy, Lviv, Dnepr and Kryvyi Rig.

Cheese and Butter Segment

Cheese is the second-largest dairy market in the CIS after whole milk products.

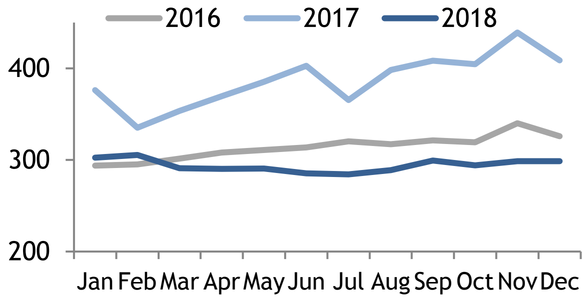
In Russia abundant supply of raw milk and milk powder in 2018 contributed to higher cheese production, as processors converted perishable raw milk and milk powder inventories into cheese with longer shelf life. As a result, 2018 cheese production grew 2.4% on y-o-y basis, with cheese products output also increased by c. 5.3% in comparison with 2017. Unlike to cheese, butter production in Russia declined by c. 4.7% last year also fueled by global trends of lower demand for this good.

The food embargo imposed by Russian authorities against EU, Ukrainian dairy producers and their colleagues from some other countries, hit the supply of cheese harder than any other dairy category, resulting in 37% drop in cheese imports in 2014 to c. 200 thousand tons in comparison with 2013. Since that time, the imports have been gradually recovering and reached c.267 thousand tons in 2018 (up 20% on y-o-y basis), with c. 84% out of this volume imported from Belarus (+1pp y-o-y). In turn, in 2018 butter imports stood at 10% lower than in 2017, with those supplies also came mainly from Belarus (76% of total volume, +5pp on y-o-y basis).

The Russian industry has gained sufficient capacity to fill the shelves in the economy product category after three years of countersanctions trade restrictions. However, growing demand, mainly for high quality hard cheese, wasn't able to fully absorb increase in production (Russian products in the premium group still can't compete with quality European-made cheese).

Building up cheese stocks and declining consumer purchasing power consequently pushed average hard cheese prices in Russia 24% lower y-o-y in RUB terms. At the same time, declining production and imports of butter in 2018 brought average butter price up 4% in comparison with 2017.

Russia's prices for hard cheese in 2016-18 (RUB/kg; incl. VAT)

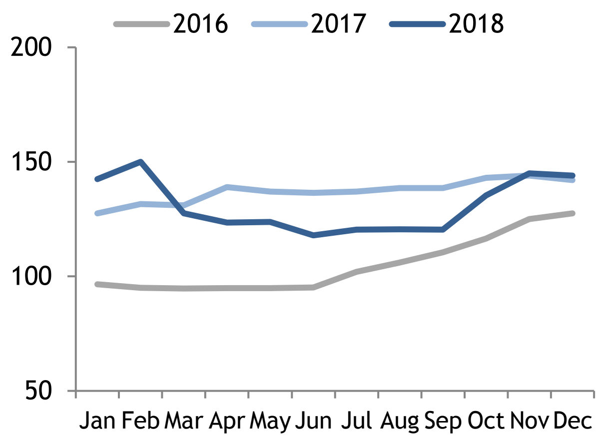


Source: http://www.gsk.ru

In Ukraine 2018 cheese production showed second year of improvement following eight years of sequential decline amid economic downturn in the country started in 2008 and introduction of food import ban in 2015 within the framework of the conflict with Russia. In particular, in the last year the output of this product increased by 3.9% on y-o-y basis.

While Ukrainian cheese exports declined by 8% y-o-y in 2018 y-o-y basis, to minor 8 thousand tons, imports grew by some 37% in comparison with 2017 to c. 14 thousand tons. Import supplies mainly came from EU countries, also demonstrating growing demand for high quality hard cheese. At the same time, growing cheese supply contributed to 5% correction in average selling price in UAH terms last year.

Ukraine's prices for hard cheese in 2016-18 (UAH/kg; incl. VAT)



Source: http://www.ukragroconsult.com

Similarly to Russia local butter production in Ukraine declined 2% y-o-y. On the back of correction in international butter prices last year (-9% y-o-y to $4,884/t), butter exports from Ukraine remained unchanged y-o-y at 30 thousand tons, while imports remained immaterial. Reflecting lower supply, average butter prices added 10% y-o-y on average in 2018.

In Poland, where Group operates its Ostrowia cheese making facility, cheese production grew 1.9% y-o-y, to some 865 thousand tons, while butter production stood 4.1% higher, at 222 thousand tons. While Polish cheese and butter exports grew by c. 6% and 12% y-o-y in 2018, exports to non-EU countries declined compared to 2017 (c. -1% for cheese and c. -45% y-o-y for butter). At the same time, following growing production volumes and 5% y-o-y correction in international cheese prices, average prices for Cheddar cheese in Poland declined 3% y-o-y in EUR terms. In turn, prices for butter in Poland remained little-changed y-o-y in EUR terms, in spite of 9% correction in international prices.

In 2018, Group's cheese & butter segment revenues increased by 20% y-o-y, to EUR 51 million, accounting for 38% of the overall 2018 revenues (up 8pp y-o-y), as company boosted its cheese sales by c. 40% y-o-y, with Russia accounted for almost half of total cheese sales volumes. At the same time, correction in cheese prices across it key markets, as well as RUB and UAH devaluation, largely offset delivered improvements in sales dynamics.

At the same time, segment's EBITDA dropped 52% y-o-y to EUR 2.0 million, mainly on the back of lower prices for cheese in Russia and Ukraine in 2018. The segment's 2018 EBITDA margin decreased by 5 pp y-o-y to 4%.

The Group's management will continue putting their efforts on the improving profitability of the cheese & butter segment by focusing on local markets and further gaining a market share on the profitable Russian market.

In Ukraine Milkiland offers higher value-added aged, mould cheeses to support the market share of the Group in the local market.

Polish Ostrowia focuses on the development of the cheese distribution network in the local Polish market until the Russian market is closed for the EU producers and also searching for new export opportunities in EU market and globally.

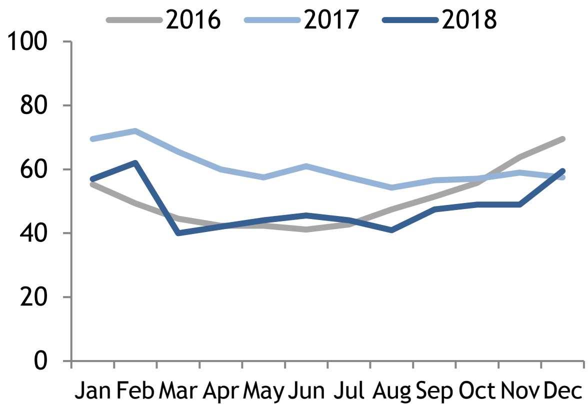
Ingredients Segment

The Group's strategy of diversification and close integration with raw milk suppliers presumes presence in other dairy categories, such as dry milk products. This category includes skimmed milk powder (SMP), whole milk powder (WMP) and other B2B products made from whey (WPC80 and permeate). Milkiland's sales in these categories may vary significantly from year to year, depending on global commodity prices for dry milk products. Usually, Milkiland uses high season of raw milk surplus to dry milk in order to sell it throughout the year.

Higher raw milk availability globally in the second half of 2018 and considerable SMP stocks in the EU and USA contributed to correction in international milk powder prices, with average SMP and WMP quotes declined 2% and 3% y-o-y respectively last year, to $1,995/t and $2,997/t. At the same time, correction in international dry milk prices contributed to higher import demand for SMP, in particular from Mexico and Algeria, pushing world exports up 5.6% y-o-y. In turn, high milk powder stocks in Russia contributed to lower import demand for WMP, bringing world exports down 3.4% y-o-y.

Production of skimmed milk powder is closely tied to butter production. That said, correction in butter output contributed to reduction in dry milk products output in Ukraine – SMP output in 2018 declined 18% y-o-y to c. 38 thousand tons. At the same time, production of WMP grew 10% y-o-y to c. 13 thousand tons. As a result of lower output volumes, Ukraine's skimmed milk powder export declined by 21% last year, to 23 thousand tons, with average export price declined 13% y-o-y in USD terms. While WMP export volumes grew 8% y-o-y in 2018 in volumes terms, it remained modest in absolute terms (4 thousand tons), with average export price declined by minor 1% y-o-y in USD terms. Local dry milk prices were mixed in 2018, with SMP prices declining 20% y-o-y in UAH terms, while WMP prices increased 8% y-o-y.

Ukraine's prices for SMP in 2016-18 (UAH/kg; incl. VAT)



Source: http://www.ukragroconsult.com

In Russia production of both SMP and WMP decline y-o-y in volume terms last year (-1% and -10% respectively). In spite of lower production volumes, high dry milk stocks in the country held imports lower in 2018 (-35% y-o-y in volume terms for SMP and -48% y-o-y for WMP, to c. 82 thousand tons and 26 thousand tons respectively). Following correction in international prices, Russia's average SMP import price declined 16% y-o-y, while average WMP import price corrected 5% y-o-y.

In turn, in Poland 2018 WMP and SMP output stood 10% and 14% higher y-o-y amid growing raw milk supply. While exports of dry whey remained little-changed y-o-y at 203 thousand tons (incl. 92 thousand tons exported outside of EU), exports of SMP jumped by 45% y-o-y, to 123 thousand tons (incl. 88 thousand tons – outside of Ukraine), reflecting both higher output volumes and destocking locally. At the same time, local prices remained under pressure in 2018, with average SMP price declining 21% y-o-y in EUR terms.

In 2018 the Group's subsidiaries, Milkiland EU and Milkiland Intermarket, increased milk powder sales by 8% y-o-y in volume terms. However, amid correction in international SMP and WMP quotes, Milkiland's revenues in Ingredients segment declined 31% y-o-y, to EUR 17 million.

The global downturn in dairy prices thus resulted in a margin squeeze in company's ingredients segment. Segment's EBITDA stood at c. EUR 0.5 million, down c.58% y-o-y, representing c.3% EBITDA margin (down 1 pp y-o-y).

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2018 and 2017 in thousand Euro.

Selected financial data

	2018	2017
I. Revenues	132,595	140,411
II. Operating profit	(10,122)	588
III. Profit before tax	(20,169)	(7,242)
IV. Net profit	(20,085)	(7,346)
V. Cash flows provided by operating activities	3,127	10,996
VI. Cash flows used in investing activities	(1,033)	(2,811)
VII. Cash flows provided by financing activities	(2,426)	(7,924)
VIII. Total net cash flow	(332)	261
IX. Total assets	151,909	160,415
X. Current liabilities	142,813	122,859
XI. Non-current liabilities	14,300	24,634
XII. Share capital	3,125	3,125
XIII. Total equity	(5,204)	12,922
XIV. Weighted average number of shares	31,250	31,250
XV. Profit (loss) per ordinary share, EUR cents	(64.10)	(24.55)

Income Statement

Summary statement of comprehensive income, '000 EUR

	2018	2017
Revenue	132,595	140,411
Change in fair value of biological assets	111	269
Cost of sales	(113,200)	(116,988)
Gross profit	19,506	23,692
Operating income (expense), net	(29,628)	(23,104)
Operating profit	(10,122)	588
Net finance expense and other non-operating income/(expense)	(10,047)	(7,830)
Profit/(loss) before tax	(20,169)	(7,242)
Income tax (expense)/benefit	84	(104)
Net profit/(loss)	(20,085)	(7,346)
Other comprehensive income/(loss)	1,959	13,354
Total comprehensive income	(18,126)	6,008
Net profit/(loss) attributable to equity holders of the parent company	(20,032)	(7,672)
Weighted average number of shares (in millions), as of December 31	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	(64.10)	(24.55)

Revenue

The pressure on the results of the Russian division of the Group triggered by the stagnating consumer demand in this market, growing competition in the key markets of Russia and Ukraine together with non-favourable price situation in the global commodity dairy markets led to decline of the Group's top line in 2018 by 5.6% y-o-y to c. EUR 133 million.

The Group focused on development of sales on key operational markets, in particular increased cheese sales volumes in the key market of Russia. Thus, the share of Cheese&butter segment grew 8pp y-o-y to 38% of total Milkiland's revenues in 2018.

The table below sets forth an overview of the revenue generated by the Group in 2018 and 2017 by product segments.

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

	2018		2017		2018 vs. 2017	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	50,745	38%	42,246	30%	8,499	20%
Whole milk products	64,746	49%	73,248	52%	(8,502)	(12%)
Ingredients and other	17,104	13%	24,917	18%	(7,813)	(31%)
Total	**132,595**	100%	**140,411**	100%	**(7,816)**	(5.6%)

Sales of cheese and butter increased by 20% on y-o-y basis to EUR 50.7 million, mainly due to the increase in cheese volume sales in key operational market of Russia but also thanks to higher butter sales volumes to EU countries, including the Netherlands, Denmark and Spain, as well as promising markets of China and Israel.

After the import ban for Ukrainian and the EU dairy products implemented by Russian authorities the Group continued facing the restricted access to Russian market for export of its Ukrainian and Polish facilities. Striving to offset these restrictions, in 2018 Milkiland RU, Russian subsidiary of the Group, continued its efforts aimed at further localization of the production and sales of cheese under Milkiland's brands, which created solid background for growing sales in this country.

For more information on cheese and butter production and sales, refer section *Key Products, Production and Sales*.

Sales of whole milk products declined 12% y-o-y to EUR 64.8 million on a back of decline of the respective sales in Russian division (Ostankino) due to lower y-o-y consumer demand and intensified competition, local currencies devaluation in Russia and Ukraine. These sales represented c. 49% of the total consolidated revenue in 2018 vs. c. 52% in 2017.

Ostankino the Group's main subsidiary in Russia has experienced a decline in revenues in whole milk products segment due to stagnation of Russian dairy consumption, shift of the customer's preferences towards less expensive dairy goods, increased competition from the local players. This facility holds the position of main revenue contributor of the Group in 2018, delivering about 45% of sales in value terms.

For more information on whole milk production and sales, refer section *Key Products, Production and Sales*.

Sales in the Ingredients segment declined 31% to EUR 17.1 million thanks to lower sales prices and volumes of sales of dry milk products, including SMP and WMP. This decline was partly offset by increased sales of cheese-like products in the dairy markets of EU and CIS, which sales volumes more than tripled in 2018 on y-o-y basis.

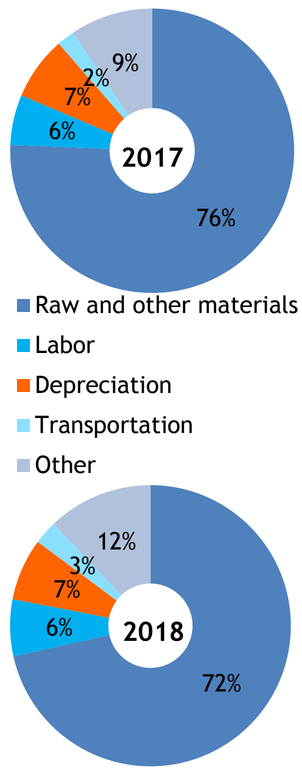
For more information on Ingredients production and sales, refer section *Key Products, Production and Sales*.

Cost of sales

The Group's consolidated cost of sales decreased c.3% to EUR 113.2 million; the main driver was 8%-deflated raw materials costs (from EUR 88.3 million to EUR 81.0 million), mainly due to correction of farm-gate prices for raw milk in Russia in 2018 (-16.9% y-o-y), which triggered the same decline (c.17% on y-o-y basis) in euro terms in the average effective price for raw milk for the Group. For more information on milk markets, refer section *Key Products, Production and Sales*.

In 2018 Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production. The Group continued cooperation with National Milk Cooperative Moloko-Kraina (a nation-wide cooperative that united a number of smaller cooperatives). In-house farming facilities focused on better per cow yields to cut the costs.

The Group's cost of sales structure in 2017-2018



In 2018 labour costs increased by 11% to EUR 7.4 million, mainly due to increase of real wages of the personnel in Ukraine, where the majority of production assets of the Group are located. Transportation costs were up c.30% y-o-y due to increased fuel costs.

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

	2018		2017	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	81,042	61.1%	88,307	58.4%
Wages and salaries	7,408	5.6%	6,668	4.7%
Depreciation	8,091	6.1%	8,404	5.9%
Transportation costs	3,069	2.3%	2,359	1.7%
Gas	3,868	2.9%	3,005	2.1%
Other	9,722	7.4%	8,245	10.4%
Total	113,200	85.4%	116,988	83.2%

Gross profit

As a result of decreasing top line and moderate correction in the revenue, Milkiland's gross profit decreased by 18% y-o-y to EUR 19.5 million implying the decrease of gross profit margin also to 14.7% in 2018 compared to 16.9% in 2017.

Selling and distribution expense

The Group's selling and distribution expenses remained practically flat in 2018 and stood at EUR 11.5 million, which represented 8.6% in the consolidated revenue in the last year. Modest growth in transportation expenses (6% y-o-y) was also pencilled in 2018 due to a rise in fuel prices. At the same time, labour-intensive costs decreased by about 7.3% y-o-y implying the Group implemented costs optimisation measures. Marketing and advertising expenses grew considerably (c. 8 times y-o-y) on the back of low comparison base of 2017, as well as accomplishment of the investments in sales volume growth for the future, postponed in the last year.

Administrative expense

The Group's administrative expenses increased c.4.8% y-o-y to EUR 12.8 million in 2018, representing 9.6% in the consolidated revenue in 2018 vs. 8.7% in 2017. A 3% increase in labour costs is mainly associated with the operational currencies movements.

Other expenses, net

In 2018 the Group received EUR 5.4 million of other operating expense compared to EUR 0.7 million of other operating income in 2017. Loss from revaluation of non-current assets of EUR 1.6 million, depreciation and amortisation of EUR 1.3 million were the main contributors to the Group's receiving other operating expense, net.

Operating profit and EBITDA

Lower gross profit together with other operating expense in 2018 resulted in the Group's negative operating profit of EUR 10.1 million vs positive EUR 0.6 million in 2017. In turn, consolidated EBITDA of the Group declined c. 79% in 2018 to c. EUR 2.1 million. EBITDA margin decreased from 7% in 2017 to 2% in 2018.

Finance expense

In 2018 financial expenses grew c. 14.7% to EUR 10.3 million on y-o-y basis. In particular, financial expenses related to bank borrowings declined 10% as a result of restructuring in loan portfolio and discounting of loans. The devaluation of Ukrainian Hryvnia and Russian rouble against euro and US dollar led to non-cash foreign exchange expense of EUR 3 million in 2018, compared to gain of EUR 0.7 million in 2017.

Profit before tax and Profit for the year

As a result of still insufficient operating income for covering financial expenses, the Group recognized a loss before tax of EUR 20.2 million (compared to loss of EUR 7.2 million in 2017). Net loss for 2018 accounted for EUR 20.1 million vs negative result of EUR 7.4 million in 2017.

Financial Position

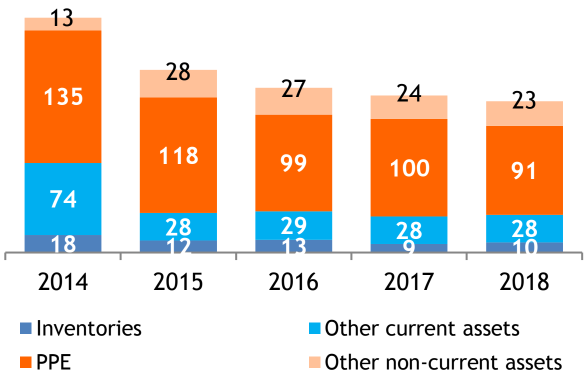
Summary balance sheet as at December 31, ‘000 EUR

	2018	2017
Cash and cash equivalents	334	1,416
Trade and other receivables	19,172	19,406
Inventories	10,078	8,713
Current biological assets	1,343	1,302
Current income tax assets	822	783
Other taxes receivable	6,117	5,194
Total current assets	***37,866***	***36,814***
Goodwill	1,300	1,474
PPE	90,773	99,679
Investment property	18,070	16,732
Non-current biological assets	1,938	1,251
Other intangible assets	1,530	1,993
Deferred income tax assets	70	2,472
Other non-current assets	362	-
Total non-current assets	***114,043***	***123,601***
Total assets	**151,909**	**160,415**
Trade and other payables	53,971	40,778
Current income tax liabilities	346	807
Other taxes payable	5,071	5,474
Short-term loans and borrowings	83,425	75,800
Total current liabilities	***142,813***	***122,859***
Long-term loans and borrowings	2,530	10,756
Deferred income tax liability	11,054	13,760
Other non-current liabilities	716	118
Total non-current liabilities	***14,300***	***24,634***
Total liabilities	**157,113**	**147,493**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	75,220	79,403
Currency translation reserve	(36,126)	(38,042)
Retained earnings	(97,358)	(81,481)
Total equity attributable to equity holders of the parent company	***(6,452)***	***11,692***
Non-controlling interests	1,248	1,230
Total equity	(5,204)	**12,922**
Total liabilities and equity	**151,909**	**160,415**

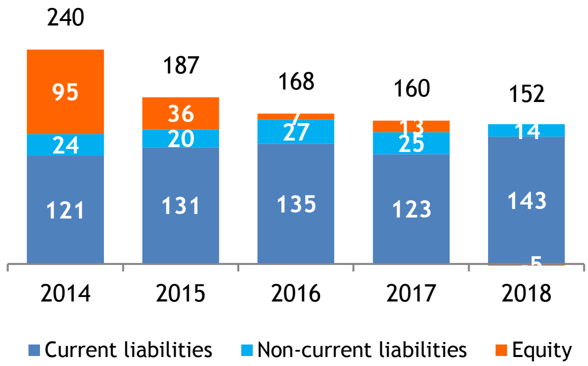
Capital structure and solvency analysis information

	2018	2017
Total debt ratio	1.03	0.92
Debt to equity ratio	(30.19)	11.41
Net debt/EBITDA	40.54	8.28
Net debt/sales	0.65	0.61

Assets structure in 2014-2018, EUR million



Equity and liabilities of the Group in 2014-2018, EUR million



Assets

The Group's total assets decreased by 5.3% from EUR 160.4 million as of December 31, 2017, to EUR 151.9 million as of December 31, 2018.

In 2018 Milkiland's current assets increased c.2.9% to EUR 37.9 million.

During 2018 cash and cash equivalents decreased 4 times from EUR 1.4 million to EUR 0.3 million.

The Group's euro-denominated inventories rose as of end-2018 by 15.7% to EUR 10.1 million in comparison with c. EUR 8.7 million as of end-2017.

Trade accounts receivable remained flat y-o-y of EUR 19.1 million.

Other taxes receivable comprise mainly export VAT receivable from the Ukrainian government. In 2018, VAT receivable increased by c.21% y-o-y. Although the Group's export sales increased over the year, VAT recoverable payments were partially paid with the rest postponed for 2019.

Non-current assets decreased by 7.7% to EUR 114.0 million, mainly triggered by a natural decline due to the devaluation of Ukrainian Hryvnia and Russian rouble.

Current assets represented 25% of the total assets, non-current assets, 75% of the same index as of December 31, 2018 (23% and 77%, respectively, as of December 31, 2017).

Liabilities and equity

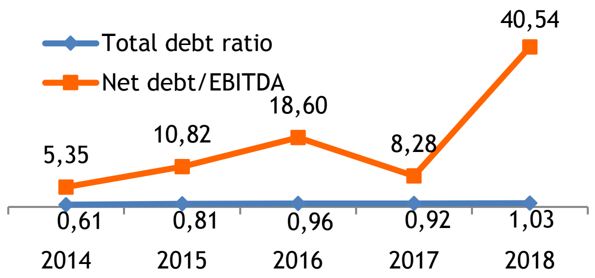
The Group's total liabilities in 2018 increased by 7% y-o-y to EUR 157.1 million as of December 31, 2018.

Current liabilities grew 16% to EUR 142.8 million, while non-current liabilities decreased significantly by 42% to c. EUR 14.3 million. Such changes in liabilities breakdown were mainly due to repayment of debt (EUR 8.3 million) and foreign exchange loss due to operational currencies devaluation in Ukraine and Russia against euro.

Net debt of the Group stood at c. EUR 86 million as of December 31, 2018. Total Debt Ratio constituted 1.03 vs. 0.92 as of December, 31, 2017. Net Debt/EBITDA ratio increased from 8.28 to 40.54 due to noticeable decline in EBITDA in 2018.

For more information on loans and borrowings contracted by the Group, refer *to the Consolidated Financial Statements* and section *Material Factors and Events*.

Debt ratios of the Group in 2014-2018



Currency translation reserve increased over the reported year (EUR -36.1 million on December 31, 2018 vs. EUR -38.0 a year before).

However, the additional EUR 15.9 million loss in retained earnings in 2018 and a c.5% y-o-y decline in revaluation reserve shifted the total equity of the Group to negative EUR 5.2 million as of December, 31, 2018.

Current liabilities represented 94% of the total equity and liabilities as of December 31, 2018 in comparison with the share of current liabilities in the total equity and liabilities of 77% as of December 31, 2017.

Increase in short-term loans and borrowings due to reclassification of some debt liabilities of the Group partly offset by increase in the Group's current assets led to negative Working capital of c. EUR 105 million.

The Group's current and quick ratios remained stable, at 0.3 and 0.2 respectively in 2018.

Over 2018 the Group's average operating cycle had changed through increase in average payment period from 131 days in 2017 to 153 days in 2018.

Balance sheet items and liquidity analysis

Ratios	Definitions	2018	2017
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	26	28
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	53	51
Average payment period, days	Average trade payables to cost of sales times number of days in the period	153	131
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	(74)	(51)
Working capital, '000 EUR	Current assets less current liabilities	(104,947)	(86,045)
Current ratio	Current assets to current liabilities	0.27	0.30
Quick ratio	Current assets less inventories to current liabilities	0.19	0.23
Cash ratio	Cash and cash equivalents to current liabilities	0.00	0.01
ROE, %		n/a	(63%)
ROA, %		(53%)	(20%)

Summary cash flow statement

	2018	2017
Cash flow from operating activities:		
Operating cash flows before working capital changes	2,958	10,168
Changes in assets and liabilities, net	1,818	2,766
Cash provided by (used in) operations:	(1,649)	(1,938)
Net cash from operating activity	**3,127**	**10,996**
Investing activities:		
Proceeds from sale of property, plant and equipment	-	-
Acquisition of property, plant and equipment	(1,060)	(2,811)
Acquisition of subsidiaries, net of cash acquired	27	-
Increase of other non-current assets	-	-
Net cash from investment activity	**(1,033)**	**(2,811)**
Financing activities:		
Acquisition of non-controlling interest	-	-
Commission paid	-	-
Dividends paid	-	-
Proceeds from borrowings	145	2,298
Repayment of borrowings	(2,571)	(10,222)
Net cash from financial activity	**(2,426)**	**(7,924)**
Net increase in cash	**(332)**	**261**
Effect of exchange rate changes on cash and cash equivalents	(750)	111
Cash at beginning of the period	1,416	1,044
Cash at the end of the period	334	1,416

Net cash at the end of the period decreased 4 times to EUR 0.3 million thanks to a positive cash flow from the operating activities.

Milkiland relies on cash provided by operating activities as a primary source of liquidity in addition to banking credit financing.

Key Investments in 2018 and Sources of their Financing

In 2018, the Group's key investments were addressed mainly to maintenance of all its assets in Ukraine, Russia and Poland.

The following table represents the Group's key investments in 2014 through 2018 by type.

Key investments in 2014 through 2018, thousands of Euros

	2018	2017	2016	2015	2014
Property, plant and equipment	1,060	2,811	1,653	3,261	6,275
Acquisition of associates and subsidiaries	(27)	-	793	(10)	-
Proceeds from sale of property, plant and equipment	-	-	(131)	-	-
Total investments	**1,033**	**2,811**	**2,315**	**3,251**	**6,275**

Last year's investments were financed mainly from operational cash flows. For more details on the Company's financial arrangements in 2018, refer to section *Material Factors and Events*.

Investment Plans for 2019 and Sources of their Financing

The Group's investment budget for 2019 will be limited to the maintenance costs and chosen investments to the new products introduction in the key markets of the Group. The general investment budget amount will comprise up to c. EUR 2 million.

For more information, refer to section

Fulfilment of Strategy in 2018 and Outlook for 2019.

In 2019 the Group intends to finance its investment program mainly from its operational cash flows.

Shareholder Structure

As of December 31, 2018 the following shareholders provided information concerning direct or indirect (through subsidiaries) ownership of at least 5% of the total votes at the General Shareholders Meeting of Milkiland N.V.

Shareholder structure of Milkiland N.V. as of December 31, 2018

Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,973,588	73.52%	22,973,588	73.52%
R-Assets Cooperatief U.A.	1,562,800	5.00%	1,562,800	5.00%
Other shareholders	6,713,612	21.48%	6,713,612	21.48%
TOTAL	**31,250,000**	**100.00%**	**31,250,000**	**100.00%**

Share Price Performance

In 2018 Milkiland share price was following the declining trend triggered by non-favourable dynamics of the Group's financials.

Another reason of negative sentiment of investors was connected to general cautious approach to Ukraine due to continuous macroeconomic difficulties as well as non-resolved military conflict in the East of the country. Still having significant part of its assets in Ukraine, the Group was subject of the general scepticism to the perspective of the investments to Ukrainian assets.

At the same time, on a company-related risks level, long-lasting negotiations with the Syndicate of the Group's major creditors were a major reason of a pressure on Milkiland N.V. quotations in 2018.

By the year-end Milkiland was trading with EV/EBITDA'18 of 41.9.

Share price performance of Milkiland N.V., 2018

Source: WSE, Bloomberg

Milkiland N.V. significant stock quotation data, 2018-2017

	2018	2017
Opening price (PLN)	1.60	2.01
Highest trading price (PLN)	1.60	2.84
Lowest trading price (PLN)	0.22	1.41
Closing price (PLN)	0.22	1.54
Closing price (EUR)	0.05	0.37
Stock performance (absolute)	(86.25)	(23.38%)
Stock performance (relative to WIG)	(85.83)	39.06%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	(64.10)	(22.25)
Price / earnings (P/E) as of December 31	(0.1)	(1.7)
Market capitalization as of 31 December (PLN million)	6.9	48.1
Market capitalization as of 31 December (EUR million)	1.6	11.5
Net debt (EUR million)	85.6	85.1
EV (EUR million) as of December 31	88.5	97.1
EV / EBITDA as of December 31	41.9	9.5
Free float (PLN million)	1.48	10.3
Free float (EUR million)	0.34	2.5
Average daily turnover (PLN thousand)	0.01	58.6
Average daily turnover (EUR thousand)	0.00	14.0

Source: Bloomberg, management estimates

Management and Personnel

Composition of the Company's Board

As of December 31, 2018 the composition of the Board of Directors of Milkiland N.V. was as follows:

- Oleg Rozhko (Non-Executive Director, Chairman of the Board of Directors);
- Anatoliy Yurkevych (Executive Director, Chief Executive Officer);
- Olga Yurkevich (Executive Director, Chief Operation Officer);
- Vyacheslav Rekov (Non-Executive Director, member of the Audit Committee);
- Willem S. van Walt Meijer (Non-Executive Director, Chairman of the Audit Committee);
- George C. Logusch (Non-Executive Director);
- Pavlo Sheremeta (Non-Executive Director).

For information on the Company's remuneration policy and remuneration of the members of the Board of Directors, refer to *Corporate Governance Report, section Remuneration Report*.

Other information

Except for Mr. Anatoliy Yurkevych and Mrs. Olga Yurkevich, who indirectly together hold 73.5% of the Company's shares, and Mr. Vyacheslav Rekov, who indirectly holds 5.0% of the Company's shares, neither member of the Company's board of Directors nor any Key Executive holds any shares or stock options over such shares in the Company.

During the last financial year there were no agreements concluded between the Company and its management personnel, which provide for compensation in case of their resignation or being removed from their position without a good reason, or being removed as a result of the Company being merged with the another company.

Personnel

As of December 31, 2018 Milkiland employed 3,238 people. Out of them 75 specialists were employed by LLC "Milkiland N.V.", a managing company of the Group located in Kyiv, Ukraine. Another 60 persons worked at a head office of Ukrainian subsidiary of the Company - LLC "Milkiland-Ukraine".

Due to the fact that Milkiland's production activities are arranged through production subsidiaries (cheese and whole milk products plants), the majority of the Company's personnel is based in Ukrainian regional production units (1,981 people, including 362 employees in LLC "Milkiland Agro" and its subsidiaries).

Milkiland EU Sp. z o. o. a head company of the Polish Group in Warsaw and UA Trade Sp. z o. o., the Polish trading company of the Group employed 10 specialists. While the Polish production facility, Ostrowia Sp. z o. o. cheese production plant had 107 employees.

The Group's Russian head-company LLC "Milkiland RU" and Moscow-based production unit LLC "Ostankino Dairy" employed 21 and 698 people, respectively. Other Russian subsidiaries had 269 employees in total.

The key companies within the Group, first of all, the managing company LLC "Milkiland N.V." and the Company's subsidiaries such as LLC "Ostankino Dairy", LLC "Milkiland RU", and Milkiland EU Sp. z o. o., have their own HR departments and are responsible for hiring and dismissing their personnel. Candidates for top-managerial and other key positions for all companies of the Group are being selected by the HR Department of LLC "Milkiland N.V." only.

Candidates' selection is conducted through the formal procedure ensuring sufficient level of required skills and compliance to the Group's corporate culture.

Staff structure comprises about 3.5% of top managers, 9.1% other managerial stuff, and about 18.9% is service staff. The remaining 68.6% is mainly a work force.

Milkiland provides equal employment and personnel development opportunities for professionals in Ukraine, Russia and Poland regardless of their gender, religion, nationality or political preferences.

Training and Professional Development

The Group strongly believes that high level of competency of its employees is a key factor of efficiency and market success. In 2018 the internal and external training programs were developed for the key jobs. 1,522 employees or over 40% of the Group's employees were trained by internal and external trainers. Production and technical employees were trained under staff development programs focusing on production safety and quality management, including HACCP-oriented programs at LLC "Ostankino Dairy", EU quality and safety requirements at LLC "Milkiland-Ukraine". All new employees have completed skill development on-boarding programs.

Corporate Social Responsibility

The Company recognizes that Corporate Social Responsibility is an integral part of its business practice, culture and strategy. The Company is therefore committed to running its business to ethical, legal and professional standards.

We respect human rights as an absolute and universal standard. Furthermore, the Company refrains from discrimination on any basis.

The Group measures our business success not only in terms of financials, but also in terms of customer safety and satisfaction, employees' engagement, maintaining strong governance practices and supporting the communities in the cities and villages of our presence.

The Group is not only focused on environmental issues by implementing state-of-the-art technologies and making the chain and the production process more sustainable, but also undertakes a responsibility to support the local communities where the Group operates by developing social infrastructure and investing in creation other social values.

In 2018 Milkiland continued supporting of local communities in areas where production assets are located. Primarily, this is day-to-day aid such as repairs of schools and kindergartens buildings, procurement of goods and services for these social establishments, purchasing of the gifts for children, charity payments to local NGO's, support of local sports events and local community celebrations.

Milkiland's Ukrainian subsidiaries also provided support of the families of the people, who participated in war conflict in the East by means of charity supplies of the Group's dairy products.

Corporate Social Responsibility goals and values of the Group are reflected in the corporate documents such as 'Milkiland N.V. Code of Conduct', 'Milkiland N.V. Diversity Policy', 'Best Practice for GWP Listed Companies 2016', which are published at the Company's web-site: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

Material Factors and Events

Material factors and events during the reporting period

Financing arrangements

Restructuring of the Loan Facility by a Syndicate of international Banks

On September 24, 2014 Milkiland published an official statement that it failed to fulfil some conditions of the Loan Facility Agreement with the syndicate of international banks, namely UniCredit Bank Austria AG and ZAO Raiffeisenbank (hereinafter "the Syndicate", "the Facilities agreement") dated 16 December 2011, and started negotiations to enter into a Loan Restructuring Agreement with the banks representing the Syndicate.

On 6 January 2017 Milkiland published an official statement that JSC "Ostankino Dairy" and Milkiland N.V. received the Demand Notice under the Deed of Guarantee made between JSC "Ostankino Dairy" as a Guarantor, and Raiffeisen Bank International AG, as an Agent of the financial parties dated 14 August 2012, in relation to the Loan Facility Agreement between Milkiland N.V. and the Syndicate dated 16 December 2011.

Further in 2017 the Group was continuing the negotiations with the Syndicate, in particular, in March 2017 Milkiland contracted Alvarez&Marsal for joint preparation of the updated Independent Business Review and Options Paper for further negotiations aimed at the Loan restructuring or refinancing by the third parties.

The respective findings were presented to the Syndicate by Alvarez&Marsal in September 2017.

On 8 October 2018 Milkiland published an official statement that on 5 October 2018 the Economic Court of the city of Kyiv commenced legal proceedings against PE "Ros", a Ukrainian subsidiary of the Group, under a claim of Raiffeisen Bank International AG, acting as Security Agent (the "Agent") under the Facilities Agreement.

The Agent claims an enforcement of the real estate and movable property of PE "Ros", mortgaged to the Lenders according to the Mortgage agreement dated 28 August 2012, signed to ensure the fulfillment the obligations of the Company to the Lenders under the Facilities agreement.

The Group also received another 12 court claims of the same nature from Raiffeisen Bank International AG against other 5 Ukrainian subsidiaries of Milkiland Group, including, DE "Agrolite", PE CF "Prometey", PJSC "Chernigiv milk plant", DE "Aromat", LLC "Malka-trans", which were addressed to the Economic Courts related to the destination of the defendants, in particular, Economic Courts of Chernigov, Dnipropetrovsk, Khmelnitsky and Sumy oblasts (regions) of Ukraine.

The total value of the above mentioned claims is as follows: USD 81.12 million and UAH 0.64 million and EUR 0.022 million (c. EUR 69.38 million).

All of the court claims include PJSC "Raiffeisen Bank Aval" as a third party of the court cases without the stand alone claims regarding the matters of the respective disputes.

The Group has been participating in the respective courts hearings and has been continuing the negotiations with the Lenders in order to reach the mutually accepted solution of settlement of the Group's indebtedness to them.

The Group is continuing the negotiations with the Syndicate with the involvement of Alvarez&Marsal and expecting to finish them by finding a mutually accepted way of settlement of this indebtedness in the foreseeable future.

In particular, the Group conducted negotiations with several Ukrainian and Russian financial institutions regarding the possibility to refinance the Syndicate loan.

The total sum of the Group's indebtedness to the Syndicate, as of 31 December 2018, stood at EUR 51.16 million, full sum is overdue.

Filing the bankruptcy petition against JSC "Ostankino Dairy" by PJSC Bank "Vozrozhdenie"

On 19 April 2017 Milkiland published an official statement that the Company and JSC "Ostankino Dairy" ("Ostankino") received the information that Public JSC Bank "Vozrozhdenie" ("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 on the hearings of this case on April 26, 2017 declared

JSC "Ostankino Dairy" bankrupt, introduced the bankruptcy proceedings and appointed the bankruptcy administrator.

In order to assure a continuity of operations of Ostankino, the business of the company was reorganized. The service of the contracts with its suppliers and clients was transferred to a newly incorporated 100% subsidiary of Milkiland Group, LLC "Ostankino Dairy".

In February-May 2018 the evaluation reports with respect to the pledged and unencumbered property of JSC "Ostankino Dairy" were published at the official Russian web-site: www.fedresurs.ru

In July-December 2018 some tenders of unencumbered property of JSC "Ostankino Dairy", including, buildings, automobiles, trademarks, bills of exchange were arranged though www.fedresurs.ru. In particular, on the tender on 06 September 2018 the non-core trademarks of JSC "Ostankino Dairy" were sold.

Milkiland's management believes that the settlement of the bankruptcy case of Ostankino will take a significant amount of time, including to resolve the legal claims and disputes between the creditors, and actively seeking the mutually acceptable way of such a resolution.

Decline of a holding of shares of Milkiland N.V.

On August 7, 2018 and December 7, 2018 Milkiland published an official statements regarding the receiving of the information from AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK (hereinafter "Aviva OFE") on decline of holding of shares of Milkiland N.V. below the thresholds of 5% and then 3% of the total voted at the General meeting of the shareholders of the Company, respectively.

Before these transactions, Aviva OFE held 1,570,579 (one million five hundred and seventy thousand five hundred and seventy-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 seventy-nine) votes or 5.03% of the voting rights on the General Meeting of Shareholders.

After these transactions Aviva OFE holds 899,265 (eight hundred and ninety nine thousands two hundred and sixty five) shares of the Company that constituted 3.01% of Company's share capital and corresponded to 899,265 (eight hundred and ninety nine thousands two hundred and sixty five) votes or 3.01% of the voting rights on the General Meeting of Shareholders.

Signing the debt restructuring agreements with Pekao Bank S.A. and Pekao Leasing

On September 11, 2018 Milkiland published an official statement that the Amendment agreement to Revolving Credit Facility agreement and Overdraft Credit Facility agreement ("the 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 4.87 million (EUR 1.1 million), was signed on 29 August 2018.

The Parties agreed that the final repayment of the indebtedness shall be made on 31 July 2019.

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 31 March 2019 and allocate the obtained proceedings for the repayment to the Bank.

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 0.609 million (EUR 0.143 million) until 31 July 2019.

During of the term of the Amendment agreement, the Bank took the obligation to refrain from debt enforcement procedures.

Also, the Amendment agreement to Agreement between Pekao Leasing, from one side, and Ostrowia sp. z.o.o., Milkiland EU, the Group's Polish subsidiaries, on another side, on restructuring of the indebtedness in the total amount of PLN 6.4 million (EUR 1.5 million), was signed on 28 August 2018.

The Parties agreed that the final repayment of the indebtedness shall be made on 31 December 2019. The monthly repayment schedule was applied.

Material factors and events after the reporting date

On March 20, 2019 Milkiland published an official statement that the Assignment agreement between Raiffeisen Bank International and Milkiland N.V. as "the Agent" and "the Borrower" respectively, and UniCredit Sp.A. as the "Existing Lender", and Swestal Holding ltd. as the "New Lender", was signed on 13 March 2019 and came into force on 19 March 2019.

According to the Assignment agreement the Existing Lender assigns absolutely to the New Lender all the rights of the Existing Lender under the Facility Agreement.

The New Lender also undertakes the Existing Lender Commitment comprising as of the date of Assignment agreement USD 29.29 million of principal under tranche A and all of the Existing Lenders rights, interest and liabilities under the Facility agreement and the related Finance Documents under this agreement

This amount corresponds to the half of the total sum of the Company's principle indebtedness under the Facility Agreement.

Going Concern Assumptions

Financial situation as per 31 December 2018

Key financial indicators 2018

Per December 31, 2018 the equity of Milkiland amounts to € 5.2 million negative. A loss amounting to € 16.7 million has been realized over 2018. Operating cash flows were positive amounting to € 3.1 million and the net cash flow was negative for € 0.3 million.

Loan covenants

As at 31 December 2018 the Group was in breach of certain financial covenants under a few bank loans mostly due to devaluation of the local currency. This situation started in 2014 and is still applicable. The breaches relate to the following covenants:

- 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.

Non-compliance with covenants gives banks a formal right to demand early repayment of loans. The management notified all banks about expected prospective non-compliances. Since October 2018 Milkiland has been participating in legal claims on recovery of the real estate and movable property of several Ukrainian subsidiaries of the Group mortgaged to the Lenders.

Local operations

In the course of 2017 the Arbitration Court of the City of Moscow declared the JSC "Ostankino Dairy" bankrupt based at the claim of one of its Creditors, Bank "Vozrozhdenie" (for more detailed information relating to the bankruptcy process and status please refer Material Factors and Events in the Report of the Board of Directors).
The Polish operations are currently financially supported by the Group due to the loss making operations.

The above circumstances could materially affect the ability of Milkiland to continue as a going concern.

Historical background

The Group conducts significant part of its operations in Russia and Ukraine. On the back of the conflict between these two countries, which, inter alia, led to the closure of traditional Russian markets for Ukrainian dairy, as well as the implementation of the sanctions against Russia by US, EU and several other countries and macroeconomic situation in both countries in 2014-2015 deteriorated significantly. In particular, Ukraine faced a full scale economic crisis with the GDP drop, declining international trade and deep devaluation of the national currency while, Russian economy came to stagnation. The real income of the population in Russia and Ukraine deteriorated, which triggered the contraction of the consumption of the FMCG goods, including dairy.

The closure of the traditional Russian export market for the Group's Ukrainian and Polish subsidiaries, deep devaluation of Russian Rouble and Ukrainian hryvnya, decline of the demand for dairy in Russia and Ukraine made an adverse effect at the Group's financial position and performance in 2014-2015.

The macroeconomic stabilization of 2016 and the return of the economies of Ukraine and Russia to growth in 2017-2018 provides to Milkiland an opportunity to capitalize on growing customers confidence and, in the nearest years, restoration of the demand for quality dairy in these key markets for the Group's business. But the timing and the dynamics of this process is not currently determinable. Due to this, adverse effect of still limited customer demand, as well as remained macroeconomic imbalances, for example, expected further devaluation of UAH, may adversely affect the Group's operations and financial performance.

Matters considered in determining the appropriateness of the going concern assumption

Syndicate loan

The Group's management is in progress of refinancing of the indebtedness to the Syndicate amounting to € 51.16 million. In March 2019 Milkiland has published the official information regarding the assignment of the indebtedness in the sum of USD 29.29 million (50% of the Syndicate Loan) under Facility Agreement to a New Lender, namely Swestal Holding ltd. The detailed terms and conditions are currently being agreed upon. The Group's management plans to continue the negotiations on the restructuring of the remaining other 50% indebtedness with a new lender and hopes to achieve the progress on this issue in the near future.

<u>Ostankino's Creditors</u>

With regards to the JSC "Ostankino Dairy" bankruptcy, this event caused another possible material threat to the going concern ability of Milkiland and its operations in the Russian market and Moscow region. The ability of the Group to continue its operations there is dependent on upcoming negotiations during the bankruptcy procedures and finding of the mutually acceptable solution of the settlement of the indebtedness to Ostankino's Creditors. The current situation is similar to last year.

<u>Other</u>

Besides refinancing of the Syndicate Loan and the settlement of the indebtedness to Ostankino's Creditors, the Group is in progress of improving the profitability and cash flows for the Group as a whole, which includes the Polish segment. This includes plans to generate wholesale business and expanding business to different countries, as included in the strategic plans of the Group and partially depending on the ability to refinance the Syndicate Loan.

In conclusion

The ability of the Group to continue its operations is dependent upon the Syndicate to continue the current financing until refinancing or restructuring is arranged and the upcoming negotiations with the Syndicate and third parties and finding a mutually acceptable solution of the settlement of the indebtedness to Ostankino's creditors as well as improvement of future profitability and cash flows.

Based on the going concern assessment - the material uncertainty regarding the going concern assumption combined with the matters considered in determining the appropriateness of the going concern assumption - made by management, the Group concluded that it is deemed appropriate to prepare the financial statements on the going concern basis.

Fulfilment of Strategy in 2018 and Outlook for 2019

Strategic priorities

Milkiland's strategic goal is to become an international diversified dairy Group with clear market leadership in cheese and strong position in whole milk products segment in CIS, balanced presence in EU dairy market and ability to capitalize at global international trade of dairy products. To achieve this goal, Milkiland business has been growing both organically and through selective acquisitions, tapping the existed consolidation potential, especially in the cheese market in CIS.

Milkiland distinguishes itself as "supplier of choice" for consumers in its core markets (Russia, Ukraine and Poland) offering a full range of everyday dairy products at the highest value for money. The Group aims to achieve and maintain this by controlling the whole supply chain — from farm to supermarket's shelves, thus ensuring high quality and affordable price.

Milkiland's primary focus is fresh dairy and cheese, the largest and fast growing dairy segments of CIS dairy market. The Group believes that it knows how to create products appealing to its consumers with their healthy, genuine qualities and superior taste.

The Group is actively promoting its international and local brands, including Dobryana for CIS market, Ostankinskoye and 36 Kopeyek for Russian market, as well as Ostrowia brand, a traditional trademark well-known for Polish customers.

Better economic background for the Group's business in 2018 on the back of increased competition

In 2015-2016 Milkiland's business performance and financials were severely supressed by the combination of geo-political risks, including the continuing tension between Russia and Ukraine, negative macroeconomic performance, as well as bad shape of consumer markets in these countries.

The macroeconomic situation started to improve in 2016, then in the years 2017-2018 positive trends of macroeconomic stabilization in Russia and Ukraine, the core markets of the Group, became more evident.

In particular, in 2018 real GDP of Russia and Ukraine grew by 2.3% and 3.0% on y-o-y basis, respectively. Russia posted the low CPI stood at 2.9%, while Ukraine returned to a single double-digit inflation of 9.8%. The devaluation pressure on Ukrainian hryvnia eased: in 2018 it devalued against EUR by 5.4% only, contrary to double-digit devaluation in the previous years. At the same time, Russian rouble devalued against EUR by c. 9.3% on average in comparison with 2017.

These positive trends, however, had limited effect on restoration of the consumer demand in the key market of Russia. The real disposal income of Russian population in the last year practically stagnated (+0.3% on y-o-y basis). At the same time, Ukraine in 2018 pencilled c. 10% growth of this index in comparison with 2017, which triggered some restoration of consumer demand in a country.

Those positive macroeconomic trends in 2018 had place on the back of intensifying competition in the local dairy markets. In Russia this trend was triggered mainly by local producers, trying to earn new market share on a wave of "import substitution" of banned Ukrainian and EU-made dairy goods. In Ukraine the additional pressure on the dairy market came from import of dairy from EU countries under the framework of FTZ agreement between Ukraine and EU. As the result, this factor limited the growth opportunities of the Group's business in these key markets.

At the same time, continuing moderate devaluation of Ukrainian hryvnya against USD and EUR in 2018 provided some additional competiveness for Ukrainian export, including of such a dairy export goods, including butter, dry milk and cheese-like products.

Thus, in 2018 Milkiland continued its policy aimed at the development of the sales at new export markets and participation in international trade of dairy goods through its Milkiland Intermarket subsidiary. Additional efforts were targeted at growing local competence in the markets of its operations in Russia, Ukraine and Poland.

Strategy fulfilment in 2018

Last year Milkiland penciled a correction on a top-line level of the business, when the Group's revenue decreased by c. 5.6% to c. EUR 132.6 million in comparison with the year 2017.

Mainly on the back of decline of the Russian segment of the Group's business, first of all due to worse financial results of Ostankino, Milkiland's EBITDA in 2018 decreased to EUR 2.1 million in comparison with EUR 10.3 million in 2017. In turn, lower EBITDA of the Group led to the growth of the negative net result of Milkiland from c. EUR 7.3 million in 2017 to c. EUR 16.7 million in 2018.

In the last year the Group continued a policy aimed at searching of a new markets and geographical diversification of sales. In line with this policy, Milkiland Intermarket continued a development of its export business in Israel by selling to this country the Group's made butter and dry milk products, which passed Kosher treatment. New steps to advance at Chinese dairy market were made, where the Group started the supplies of butter and SMP to local consumers.

In order to expand its product matrix, the company introduced new export goods of economy segment, cheese-like products. The Group successfully sold additional volumes of these products in Central Asian markets, in particular, to Kazakhstan, Kyrgyzstan and Uzbekistan.

In 2018 Milkiland RU, a Russian subsidiary of the Group, practically followed the positive trajectory of 2017 by continuing its efforts aimed at further localization of the production and sales of chees under Milkiland's brands in Russia. This led to almost replication of the financial result of 2017 year, while the Company's revenue remained almost flat at c. EUR 22.8 million and EBITDA modestly corrected from EUR 1.4 million in 2017 to EUR 1.1 million in 2018.

Moscow-based Ostankino Dairy, the main subsidiary of the Group in Russia, faced a biggest challenge in 2018. Shift of the dairy consumption to cheaper goods on the back of stagnation of the real income and consumer demand of Russian population, intensifying competition of the local players, especially in the key accounts channel (retail chains), led to decrease of Ostankino revenue in 2018 by 11.7% on y-o-y basis to EUR 57.2 million. EBITDA of the company came to negative territory of EUR 0.6 million in comparison with positive EUR 5.3 million in the last year.

In Ukraine, Milkiland Ukraine subsidiary focused its efforts on development of its local sales, primarily in the key-accounts channel, as well as on development of the export sales. As the result, the Company increased the sales in key-accounts channel by c. 20% in volume term on y-o-y basis and improved its presence on a shelfs of the leading Ukrainian retail chains. The share of export sales in 2018 in the total sales of the Company increased to c. 45% in comparison with c. 35% in 2017. Despite this, competitive pressure to the Company in the local market combined with unfavorable price trends to the main export goods of the Company at the global dairy market, led to minor c. 1% correction of Milkiland Ukraine revenue in 2018 to EUR 40.7 million on y-o-y basis, while the company's EBITDA declined by half to c. EUR 1.6 million in 2018 in comparison with 2017.

Milkiland EU, the Polish subsidiary of the Group managed to increase a top-line by c. 4% in 2018 to c. EUR 12.1 million on y-o-y basis, despite the non-favorable global prices for its key products, WPC-80 and permeate. At the same time, due to higher inputs prices, including for whey at the Polish market, the company posted negative EBITDA of c. EUR 0.4 million in 2018 versus to minor c. EUR 0.05 in 2017.

In 2018 Milkiland continued its vertical integration efforts by supporting of in-house milk production by Milkiland-Agro subsidiary. In particular, the company concentrated on the increase of milking cows' headcount and improving of milk yields.

As the result, the number of Milkiland cows headcount in 2018 increased by c. 10% on y-o-y basis, while raw milk yield per milking cow head grew by c. 6% to c. 6.8 tons. This led to c. 14% growth of in-house milk production. The EBITDA of Milkiland-Agro in 2018 corrected modestly to c. EUR 1.2 million in comparison to c. EUR 1.6 million in 2017 due to absence of VAT subsidy cancelled in the last year.

Strategic outlook for 2019

In 2018 the Group did not achieve a task of restauration of profitability of its business.

The current year is expected to be crucial for reaching a break-even point for generation of the new value of the business. The Group's management is going to achieve this by continuing a policy aimed at strengthening of the market positions of Milkiland in the countries of its operations, as well as on searching for new, and advancing at the existed export markets.

Milkiland's Russian division aims its efforts on streamlining of products portfolio in order to increase the share of high value-added healthy modern dairy, as well as on growing local cheese production.

The goals of the Ukrainian division are of two major types, as follows: to strengthen the positions in the local dairy market, especially in cheese segment and several niche segments, including lactose-free dairy, special types of cheese, and to build a sustainable export-oriented model of its business. Forecasted further soft devaluation of the Ukrainian Hryvnia in 2019-2020 remains the supporting factor for reaching of the export goals.

Milkiland EU in 2019 is concentrating at the development of local distribution network in Poland for locally produced cheese, including in order compensating the volatility of the global prices for its key dry milk products. The traditional task of the searching for the new export markets for latter remains relevant in 2019.

The Group’s investment budget for 2019 is limited on the maintenance level and some expenses on introduction to the local markets of its operations the high value-added products. The amount of the respective investments will stand on the level of c. EUR 2 million.

Material Risk Factors and Threats to the Group

A number of risks could materially affect the Group's business, financial condition and results of operations.

Described below are the risks and uncertainties that, we believe, are material, but these risks and uncertainties may not be the only ones faced by the Group.

Business and industry risks

Exports to Russia

Russian market was the important market for the Group's cheese export from Ukraine to Russia. Every year it significantly contributed to the positive financial results of the Group in general.

Nevertheless, since 2014 Russian market is not available for Ukrainian dairy export. In April 2014, the Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance imposed restrictions on export of dairy products produced by largest Ukrainian dairy producers, including Milkiland's Okhtyrka, because of perceived violations of Russian technical requirements. In July 2014, Russia banned all dairy and milk-containing imports from Ukraine.

In August 2014 Russian government introduced an embargo on food products imported from the countries supporting sanctions over Russian Federation on annexation of Crimea and support for insurgents in the Eastern Ukraine. The list included, inter alia, the EU countries, the USA, Canada, Australia and others.

Starting from January 1, 2016 Russia put a ban on exports of some agricultural and food products from Ukraine (including dairy products). These restrictions are still applicable in 2019.

The Group does not expect that Russia will lift existing trade barriers for Ukrainian dairy exports or allows selected producers, such as the Group or its subsidiaries, to resume deliveries in the following year. The existing ban on dairy exports from Ukraine significantly affected the Group's financial results in the past years and continues to be among the factors that influence the Group's business, financial condition and results of operations.

Input cost increase

The Group's business is subject to price fluctuations and shortages, which sometimes are beyond its control. This factor was present in Group's operations through 2018.

Although historically the Group has been able to pass on increases in raw material prices to its consumers, there is no assurance that it will be able to do so in future as this will depend to a large extent on market conditions. Even if the Group is able to pass these costs on to consumers, an increase in selling prices could be implemented with time lag and also may inhibit consumer appetite for Group's products.

For these reasons, significant increase in price of raw materials could materially adversely affect the Group's business.

Raw milk deficit

Raw milk is a key input in the Group's production process and ensuring a sufficient supply of raw milk is crucial for the Group's business.

The production of raw milk in Ukraine and Russia is stagnating over last years and is subject to seasonal fluctuations, with a surplus typically being produced in spring and summer while there is a reduction in supply during the winter months.

In 2018 the milk production in Ukraine has decreased for 1.8% comparing with 2017 based on the data of State Statistic Service of Ukraine.

In 2018 in Russia the total milk production increased for 1.5% accordingly to RosStat. Nevertheless, in the nearest years in Russia is expected the general moderate decrease of the milk shipment for industrial processing up based on expected decline of milking cow herd and improving milking yield expectations.

In the following years the Group could face difficulties in sourcing supplies of raw milk on commercially acceptable terms.

Also the Group may face additional difficulties in sourcing a sufficient amount of high-quality raw milk from suppliers in Ukraine for export of dairy products with specific certification (e.g., Kosher) and other high-quality parameters.

Exports VAT refunds

Although not specific to the agricultural industry, the Group benefits from VAT refunds in connection with its exports sales. Because exports sales are generally taxed at the rate of 0%, the Group's input VAT is subject to reimbursement by the government.

In the past due to a high budget deficit in Ukraine, many taxpayers entitled to VAT refund did not receive such refund on a timely basis.

On January 25, 2017 the Ukrainian government adopted a new procedure on VAT refund aimed to ensure transparency and fair VAT reimbursement.

Although the Group until now managed to collect VAT receivables on exports in Ukraine in sufficient amounts, there is no guarantee that it will be able successfully receive such refunds in the future. This possibility may adversely affect its results and operations.

Contamination of the Group's products

As a producer of food products, the Group's business is subject to certain risks related to the actual or alleged contamination or deterioration of its ingredients or its principal products, or of similar products sold by other producers.

Such risk is a general risk for food producers. The Group takes all necessary steps to ensure the high-quality products, including implementation of the quality management systems like ISO 9001:2000, HACCP, sanitation compliance for production facilities, and exclude contamination or deterioration possibilities.

Any such actual or alleged contamination or deterioration could adversely impact the Group's reputation, sales and profitability.

Competitive pressure

Failure by the Group to anticipate, identify or react to changes in consumer tastes or in competitors' activities could result in reduced demand for the Group's products, which in turn could result in the Group not being able to maintain its market shares or to recover development, production and marketing costs.

Since January 1, 2016 the EU and Ukraine have provisionally applied their Deep and Comprehensive Free Trade Agreement (DCFTA). The competition on the EU and Ukrainian dairy markets is also affected by the new rules established by the DCFTA.

The DCFTA requires Ukrainian dairy producers to phase out within 7 years, the production and sales of dairy products under names that are protected in the EU as Geographic Indications.

The Group historically used some of such names for own products. In order to meet the DCFTA requirements and stay competitive the Group is planning and implementing changes to Group's operations, marketing and rebranding strategies.

Antimonopoly proceedings

As the Group is one of the leading milk processors in Ukraine with strong positions nationwide and specifically in the regions of its operations, it could be subject of legal proceedings, including those under competition legislation, which could have an adverse effect on the Group's future business.

Country risks

Economic considerations

The global financial crisis, as well as recent political changes in Ukraine, have led to significant decrease in economies of Milkiland's home markets. The negative trends in Russian and Ukrainian economy may continue if local governments are not able to overcome crisis consequences, or if global slowdown resumes. In this case, Milkiland's business might be negatively affected.

Exchange and interest rate risk

Fluctuations of exchange rates of local currencies used by the Group on key markets in Russia (RUB), Ukraine (UAH), and Kazakhstan (KZT) may have an adverse effect on the financial results of the Group.

In particular, this factor is important on Ukrainian and Russian markets. Despite the recent stabilization of these currencies exchange rates, comparing to previous years, there is a possibility of further fluctuations and devaluation if the negative trends in the respective countries' economies will resume.

Risks of legislation and judicial system

The Russian Federation and Ukraine are still developing a modern legal framework required for proper functioning of a market economy. The significant amount of legislation still is a heritage of a Soviet period.

The often legislation changes and the rapid evolution of the respective legal systems result in ambiguities, inconsistencies and anomalies in their application. In addition, legislation in Russia and Ukraine sometimes leaves substantial gaps in the regulatory infrastructure.

All of these factors, together with lack of transparency, make judicial decisions in the Russian Federation and Ukraine difficult to predict and makes effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing.

Additionally, court judgments are not always enforced properly or followed by law enforcement agencies. All of these weaknesses could affect the Group's ability to enforce its rights or to defend itself against claims by others, which could have a material adverse effect on the Group's business.

Bankruptcy of Ostankino Dairy in Russia

On March 28, 2017 the JSC Bank "Vozrozhdenie" has filed a bankruptcy petition against JSC "Ostankino Dairy", one of the key Group's subsidiaries on the Russian market, to Arbitrage Court of the City of Moscow due to the inability of JSC "Ostankino Dairy" to repay in time the indebtedness to the Creditor in the total amount of RUB 309.2 million (EUR 5.13 million).

On April 26, 2017 the court has appointed an independent arbitration administrator to manage JSC "Ostankino Dairy" during the bankruptcy proceeding.

In order to ensure a continuity of operations of Ostankino, a new company LLC "Ostankino Dairy", a 100% subsidiary of Milkiland Group, was incorporated to serve contracts with the Group's suppliers and clients in Russia.

The outcome of the bankruptcy proceeding is not foreseen yet and the case hearing may take years.

This bankruptcy proceeding could have a material adverse effect on the Group's reputation and business in general, if the Group won't be able to ensure a continuity of operations of Ostankino, and to preserve its market share on the Russian market.

Claims of Raiffeisen Bank International AG to Ukrainian subsidiaries of the Group

On 5 October 2018 the Economic Court of the city of Kyiv opened the legal proceedings against PE "Ros", the Ukrainian subsidiary of the Group, according to the claim from Raiffeisen Bank International AG, acting as Security Agent (the "Agent") under the Facilities Agreement.

This document claims the recovery of the real estate and movable property of PE "Ros", mortgaged to the Lenders according to the Mortgage agreement dated 28 August 2012, signed to ensure the fulfillment the obligations of the Company to the Lenders under the Facilities agreement.

The Group also received another 12 court claims of the same nature from Raiffeisen Bank International AG against other 5 Ukrainian subsidiaries of Milkiland Group, including, DE "Agrolite", PE CF "Prometey", PJSC "Chernigiv milk plant", DE "Aromat", LLC "Malka-trans", which were addressed to the Economic Courts related to the destination of the defendants, in particular, Economic Courts of Chernigov, Dnipropetrovsk, Khmelnitsky and Sumy oblasts (regions) of Ukraine.

The total value of the above mentioned claims is as follows: USD 81.12 million and UAH 0.64 million and EUR 0.022 million (c. EUR 69.38 million).

All of the court claims include PJSC "Raiffeisen Bank Aval" as a third party of the court cases without the stand alone claims regarding the matters of the respective disputes.

The Group has been participating in the respective courts hearings and has been continuing the negotiations with the Lenders in order to reach the mutually accepted solution of settlement of the Group's indebtedness to them.

The Group is continuing the negotiations with the Syndicate with the involvement of Alvarez&Marsal and expecting to finish them by finding a mutually accepted way of settlement of this indebtedness in the foreseeable future.

The possible satisfaction of these claims by the respective Ukrainian courts, as well as the inability to find a settlement of the relations with the Syndicate, may have a material adverse effect on the Group's operations and business in general.

Political and governmental considerations

The Group performs its activities in Ukraine in the environment of political and economic crisis that has aggravated since November 2013.

The assets of the Group in Ukraine are mainly located in Central, West and North-East of the country and not in the current tumultuous East of Ukraine.

However, as a possible consequence of the current crisis, the economic and financial situation in Ukraine could further deteriorate, which, inter alia, could lead to a significant devaluation of Ukrainian and Russian currencies, declining demand for FMCG goods at one of the Group's core markets, difficulties with performing foreign trade operations.

CORPORATE GOVERNANCE REPORT

Introduction

Milkiland N.V. (the "Company"), having its registered office in the Netherlands and which shares are admitted to trading on a regulated market, is subject to the principles and best practice provisions of the amended Dutch Corporate Governance Code (the "**Code**") effective as of 1 January 2017.
The document can be found by the following link: www.commissiecorporategovernance.nl

Moreover, since Company's shares are listed on the Warsaw Stock Exchange, the Company is subject to the principles of Corporate Governance as stated in the Code of Best Practice for WSE Listed Companies in 2016 (the "WSE Code"), which can be found by the following link:
https://www.gpw.pl/best-practice

The Code contains principles and best practice provisions that regulate relations between the management board, the supervisory board and the general meeting of shareholders. The Company should state in its annual report how it applies the principles and best practice provisions of the Code in its annual report for the financial year 2018 and should, where applicable, explicitly explain why and to what extent a provision deviates from the principles stated in the Code.

The Company's application of the Code is described in the Report on compliance by Milkiland N.V. with the revised Dutch Corporate Governance Code of 2016 as approved on 14 November 2018 by the Board of Directors, which can be found at:
http://www.milkiland.nl/en/investors/general_information/corporate_documents/
This document has to be read in conjunction with this section and is deemed to be incorporated into this section.

The Code provides that if a company's general meeting of shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

Main points of corporate governance structure

The Company is a public company with limited liability (*naamloze vennootschap*) incorporated under Dutch law, having its registered office at De Cuserstraat 93, 1081CN Amsterdam, the Netherlands.

The Company has the following subsidiaries:

- Milkiland EU Sp. z o.o. (Poland) with 1 Polish subsidiary;
- LLC Milkiland-Ukraine (Ukraine) with its 19 subsidiaries in Ukraine and 3 in Panama, 1 in Marshall Islands, 1 in Scotland, 1 in Poland;
- Milkiland N.V. LLC (Ukraine);
- JSC "Ostankino Dairy" (Russian Federation);
- Milkiland RU LLC with its 3 subsidiaries in Russian Federation;
- MLK Finance Limited (Cyprus);
- Milkiland Intermarket (CY) LTD (Cyprus), with its subsidiaries - 1 in Ukraine and 1 in Kazakhstan;
- Moloko-Kraina LLC (Ukraine);
- Milkiland Agro LLC (Ukraine) with its 7 subsidiaries in Ukraine.

Board of Directors

The Company has a one-tier corporate governance structure managed by the Board of Directors. The Board of Directors is responsible for the management of the Company, its overall results, as well as its mission, vision and strategy. The Board of Directors consists of seven directors: two Executive Directors and five Non-Executive Directors. The majority of the Board of Directors is made up of non-executive directors. All non-executive directors have provided statements of independence.

The Board of Directors charges the Executive Director(s) with the operational management of the Company, the preparation of the decision-making process of the Board of Directors and the implementation of the relevant decisions. The Executive Director(s) determine the division of duties between them. A division of tasks between the Directors may be determined by the Board of Directors. Such division shall require the approval of the General Meeting of Shareholders pursuant to article 13.4 of the Articles of Association. The Non-Executive Director(s) are charged with the supervision of duties by the Executive Directors and of the general affairs, policy of the Company and monitoring the implementation of the Company's strategy.

Board of Directors - Composition and division of duties

During the year 2018, the composition of the Board of Directors was as follows:

Mr. Anatoliy Yurkevych: Executive Director, appointed as of August 28, 2007 and reappointed as of June 19, 2015, for another four year period; Chief Executive Officer, responsible for running the Company, implementation of strategic goals and achievement of planned financial results, date of birth: 30.08.1968, gender: male, nationality: Ukraine;

Mrs. Olga Yurkevich: Executive Director, appointed as of August 28, 2007 and reappointed as of June 19, 2015, for another four year period; Chief Production Officer, responsible for supply of raw materials, production and quality assurance, date of birth: 22.11.1946, gender: female, nationality: Kazakhstan;

Mr. Vyacheslav Rekov: Non-Executive Director, appointed as of August 28, 2007 and reappointed as of June 15, 2018 for another one year period; responsible for strategic acquisitions and integration of new businesses; maintaining communication with investors, Member of the Audit Committee, date of birth: 10.02.1975, gender: male, nationality: Ukraine;

Mr. Willem Scato van Walt Meijer: Non-Executive Director, appointed as of December 6, 2010 and reappointed as of June 15, 2018, for another one year period; Head of the Audit Committee, responsible for supervising the Board's activities in respect to provision of financial information, internal controls, relations with external auditors, date of birth: 08.07.1958, gender: male, nationality: the Netherlands;

Mr. Oleg Rozhko: Non-Executive Director, Chairman of the Board of Directors, appointed as of June 22, 2012 and reappointed as of June 15, 2018, for another one year period; responsible for coordination of the Board and ensuring that proper corporate governance is in place, date of birth: 26.05.1977, gender: male, nationality: Ukraine;

Mr. George Christopher Logusch: Non-Executive Director, appointed as of June 21, 2013 and reappointed as of June 15, 2018, for another one year period; responsible for assisting in the Company's strategy development, risk assessment control and review of management performance, date of birth: 22.05.1945, gender: male, nationality: the United States of America, and

Mr. Pavlo Sheremeta: Non-Executive Director, appointed as of June 30, 2017, and reappointed as of June 15, 2018, for another one year period; Member of the Audit Committee, responsible for improvement of businesses processes in human resources, talent acquisition, and personnel education, ensures business strategy development, date of birth: 23.05.1971, gender: male, nationality: Ukraine.

On 30 June 2017 the Company adopted and published current division of duties and responsibilities for the Company's Directors, which can be found at the Company's website: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

Board of Directors - Terms of Reference

The Terms of Reference of the Board of Directors, which provide for certain duties, composition, procedures and decision-making of the Board of Directors, were adopted on 28 August 2017 in accordance with article 13.4 of the Company's Articles of Association and the best practice provisions under chapter 2 of the Code. The Terms of Reference of the Board of the Company are applied and interpreted with reference to the Code and can be viewed on the Company's website: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

The Chairman of the Board of Directors determines the agenda, presides over meetings of the Board of Directors and is responsible for the proper functioning of the Board of Directors. The Chairman of the Board of Directors shall always be a Non-Executive Director and is appointed by the General Meeting of Shareholders. All members of the Board of Directors have access to the advice and services of the corporate secretary, who is charged with ensuring that the Board of Directors' procedures are followed and that the Board of Directors acts in accordance with its statutory obligations under the Articles of Association. The corporate secretary is appointed by the Board of Directors for each meeting of the Board of Directors.

Board of Directors - Issue of shares and acquisition of own shares

According to the Articles of Association (Art. 5) the Board of Directors has the authority to propose to the General Meeting of Shareholders to issue shares. Such a proposal shall contain the price and the further terms and conditions of the issue. The General Meeting of Shareholders may resolve to designate the Board of Directors, for a fixed period not exceeding five years, as the body authorized to issue shares.

Also, the Board of Directors may be granted, by the General Meeting of Shareholders, the right to resolve upon the exclusion or limitation of pre-emptive rights.

Article 6 of the Articles of Association stipulates that the Company shall have the right to acquire fully paid-up shares in its own share capital against payment of a consideration, provided:

a. the shareholders' equity minus the acquisition price is not less than the sum of the paid and called-up part of the share capital and the reserves which must be maintained by law or under the Articles of Association;

b. the aggregate par value of the shares in its share capital to be acquired and of those already held by the Company and its subsidiaries and of those for which the Company and its subsidiaries hold a right of pledge, does not exceed half of the issued share capital; and

c. the General Meeting of Shareholders has authorized the acquisition. The authorization by the General Meeting of Shareholders will be valid for at most eighteen months and shall stipulate the number of shares that may be acquired, how they may be acquired and the upper and lower limit of the acquisition price.

For the purpose of subparagraph a. above, the determining factor shall be the amount of the shareholders' equity stated in the last adopted balance sheet minus the acquisition price.

The General Meeting of Shareholders of 2018 gave the authorization to the Board of Directors to issue, acquire own shares and to exclude or limit the pre-emptive rights.

Board of Directors - Representation

Executive Board Member(s) have the authority to represent the Company, including the authority to represent the Company acting individually. The Company may grant special and general powers of attorney to persons regardless of whether or not they are employed by the Company authorizing them to represent the Company and bind it vis-à-vis third parties.

Board of Directors - Conflict of interest

In the event that the Company has a conflict of interest with a Director, in the sense that the Director in private enters into an agreement with, or is party to a legal proceeding between him and the Company, the Company shall be represented by one of other Executive Directors. If there are no such other Directors, the Company shall be represented by two Non-Executive Directors acting individually. If there are no such Non-Executive Directors, the General Meeting of Shareholders shall appoint a person to that effect. Such person may be the Director in relation to whom the conflict of interest exists. In all other cases of a conflict of interest between the Company and a Director, the Company can also be represented by that Director. The General Meeting of Shareholders shall at all times be authorized to appoint one or more other persons to that effect.

Transactions with members of the Board of Directors in which they have significant conflicts of interest will be disclosed in the Annual Report if any.

Board of Directors – Appointment, suspension, dismissal and profile

Members of the Board of Directors may be appointed for a maximum period of four years. Starting on the day of the General Meeting of Shareholders at which they are appointed and ending on the day of the annual General Meeting of Shareholders that is held in the fourth year of their appointment. Members of the Board of Directors may immediately be reappointed. Members of the Board of Directors can be suspended or dismissed by the General Meeting of Shareholders. If the General Meeting of Shareholders has suspended a Director, the General Meeting of Shareholders shall within three months of the date on which the suspension has taken effect, resolve either to dismiss such Director, or to terminate or continue the suspension, failing which the suspension shall lapse. A resolution to continue the suspension may be adopted only once and in such event the suspension may be continued for a maximum period of three months commencing on the day the General Meeting of Shareholders has adopted the resolution to continue the suspension. If within the period of continued suspension the General Meeting of Shareholders has not resolved either to dismiss the Director concerned or to terminate the suspension, the suspension shall lapse.

The Company has a profile of its Directors, which indicates the size and composition of the Board of Directors, the activities and expertise and background of the Directors. The profile of the Board of Directors can be viewed on the Company's website:
http://www.milkiland.nl/en/company/sovet_direktorov/

Board of Directors - Committees

The Board of Directors has an audit committee (the "Audit Committee"). The Board of Directors may establish any other committee as the Board of Directors shall decide. According to best practice provision 2.3.2 of chapter 2 of the Code, only Non-Executive Directors can take place in the Audit Committee, a remuneration committee and a selection and appointment committee.

The Audit Committee is responsible for annually reviewing and reassessing the adequacy of the rules governing the committee as established by the Board of Directors. The Audit Committee will be charged with advising on, and monitoring the activities of the Board of Directors, with respect to inter alia, the integrity of the Company's financial statements, the Company's financing and finance related strategies and tax planning. The members of the Audit Committee of the Company are Mr. Willem Scato van Walt Meijer (the Chairman), Mr. Vyacheslav Rekov and Mr. Pavlo Sheremeta. The Terms of Reference of the Audit Committee can be viewed on the Company's website: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

Board of Directors - Evaluation

The Company plans to develop and adopt the evaluation policy of the Board of Directors, based on which the activity and contribution of all Executive Directors and Non-Executive Directors will be evaluated. Mentioned evaluation policy will be published at the Company's website.

Board of Directors - Miscellaneous

None of the Executive Directors holds more than two supervisory board memberships of listed companies or is a chairman of such supervisory board other than a group company. The total number of the Company's shares held by members of the Board of Directors is 24,536,388, amounting to approximately 78.52% of the issued and paid up share capital of the Company. The shareholding of the Directors has been notified with the AFM (*Stichting Autoriteit Financiële Markten*) in the Netherlands.

With respect to acquiring ownership interest of securities and transactions in securities by the Directors, the Company follows the Company's Board Securities Rules.

With respect to acquiring shares in the Company's capital by the Directors as well as other people that are involved with the Company, the Company follows the provisions of the EU Market Abuse Directive and the Company's Insider Trading Rules that reflect the provisions of this Directive.

The Company's Board Securities Rules and Insider Trading Rules can be viewed on the Company's website: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

Shareholders and shares

The Company's authorized capital amounts to five million Euros (EUR 5,000,000.00). The issued share capital of the Company amounts to EUR 3,125,000.00, which is divided into 31,250,000 shares with a nominal value of ten eurocent (EUR 0.10) each, all of the same class and kind. There are no shares issued with special rights or privileges attached to them. There are no restrictions imposed by the Company on the transfer of shares or certificates.

There have been no conflict of interest situations between the Company and its shareholders.

Shares and General Meeting of Shareholders

At least once a year, a General Meeting of Shareholders is held. General Meetings of Shareholders are convened by the Board of Directors.

In 2018, the one General Meetings of Shareholders was held. The principal decisions taken by the General Meeting of Shareholders are:

- adoption of the annual accounts for the financial year 2017, granting of discharge to the members of the Board of Directors for their tasks during the financial year 2017;
- appointment of the external auditor as referred to in section 2:393 of the Dutch Civil Code for the financial year 2018;
- the authorization of the Board of Directors for a period of 18 months following June 15, 2018 to:
  - i) repurchase shares for a price not higher than 10% of the opening price of the Company's shares quoted on the Warsaw Stock Exchange on the day of acquisition;
  - ii) resolve to issue and/or to grant rights to subscribe for shares, which authorization is limited to 10% of the issued share capital of the Company, to be increased with an additional 10% in respect of mergers and acquisitions;
  - iii) restrict or exclude pre-emptive rights in respect of such issue of shares and/or rights to subscribe for such shares;
- reappointment of Mr. Oleg Rozhko, Mr. Willem Scato van Walt Meijer, Mr. Vyacheslav Rekov, Mr. George Christopher Logusch and Mr. Pavlo Sheremeta as a Non-Executive Directors of the Board of Directors;
- approval of the amended and restated remuneration policy of the company.

Notices of a General Meeting of Shareholders are posted on the Company's website and are made in accordance with the relevant provisions of applicable laws and regulations. The notice convening a General Meeting of Shareholders shall be published no later than the 42nd day prior to the day of the meeting. The agenda and the explanatory notes thereto shall also be published on the Company's website at the same time. The agenda for the Annual General Meeting of Shareholders shall contain, inter alia, the adoption of the annual report, the reservation and dividend policy, a proposal to declare dividends, the proposal to grant discharge to the members of the Board of Directors from liability and, insofar applicable, the appointment of an external auditor. Shareholders, insofar entitled to make such request according to the law, can request the Board of Directors in writing to include subjects to the agenda at least 60 days before the date on which the General Meeting of Shareholders is convened.

In accordance with Dutch law, the record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders shall be the 28th day before the date of the relevant General Meeting of Shareholders. And holders of shares as per the record date will be entitled to vote, irrespective of any transfer of such shares between the record date and the date of the General Meeting of Shareholders.

At General Meetings of Shareholders, each ordinary share entitles the holder thereof to cast one vote.

The General Meeting of Shareholders is entitled to resolve to grant approval to decisions of the Board of Directors regarding the identity or the character of the Company, including major acquisitions and divestments.

Bilateral contacts with shareholders

To comply with the best practice provision 4.2.2 of the Code the Company developed a Policy on bilateral contacts with shareholders of Milkiland N.V. approved by the Board of Directors on 28 August 2017 that can be found on the Company's website: http://www.milkiland.nl/en/investors/general_information/corporate_documents/?PAGEN_2=1.

Internal risk management and control systems

The Board of Directors is responsible for the system of internal risk management and controls of the Company and for reviewing its operational effectiveness.

On 28 August 2017 the Board of Directors adopted the Whistleblower rules and the Code of Conduct of the Company aimed to regulate the internal procedure of reporting about the irregularities of a general, operational and financial nature within Milkiland N.V. and its group companies and/or to report alleged irregularities that relate to the performance of the members of the management of the Company. These documents published at the Company's corporate website: http://www.milkiland.nl/en/investors/general_information/corporate_documents/
The internal risk management and control systems are designed to identify significant risks and to assist the Board of Directors and the Company in managing the risks that could prevent the Company from achieving its objectives.

The Board of Directors is responsible for establishing and maintaining adequate internal risk management and control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve important business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.

In order to provide effective internal control of the financial statements preparation and accuracy of financial information, the Company has developed and implemented a three-level system of internal control:

- The first level of control (technical) foresees the checks of the prepared financial statement using mathematical formulas which allow revealing mismatches and discrepancies in the values. This level of control is conducted by the heads of financial departments of the Company's subsidiaries.

- The second level of control is provided by the financial department at the level of Chief Financial Officer of Milkiland N.V. who performs a thorough check and ensures the compliance with the Company's policies and processes.

- The third level of control is performed by Internal Audit Department who identifies the Company's risks areas. At this level of control the independent external auditor is invited from time to time.

After all three-level control is performed the financial statement together with deliberates and findings (if any) are presented to the Board of Directors.

The Company recognizes the importance of internal control and envisages improving its existing function.

Internal audit department

In deviation from principle 1.3 of the Code the Company will not appoint a senior internal auditor because the internal audit is performed by the Internal Audit Department (the "**IAD**") and partially by licensed independent external auditors under the supervision of the Audit Committee.
As a part of the Company's long-term strategy, on 14 November 2018 the Internal Audit Department Charter (the "IADC") was adopted. According to IADC the internal audit activity governed by compliance with the mandatory elements of the International Professional Practice Framework,

including Core Principles, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. These regulations are designed and approved by the Institute of Internal Auditors.

The IAD reports to Audit Committee, Board of Directors and the Chief Executive Officer. The Head of the IAD reports periodically to senior management and the Audit Committee regarding compliance of the internal audit activity to the mandatory elements of International Professional Practice Framework.

The IAD's responsibilities and functions are as follows:

- development of periodic (annual, semi-annual, quarter) internal audit plan;
- implementation of periodic internal audit plan;
- formation of audit team of professionals with sufficient knowledge, skills, experience and professional certification;
- preparation of an audit report in order to communicate the audit findings;
- following up on plan of recommendations and corrective actions provided by the IAD in order to ensure that the identified risks and major deficiencies are effectively addressed and remediated within the mutually agreed timeframe;
- preparation and presentation to the Audit Committee of reports on a monthly basis summarizing the status and the results of internal audit activity;
- review the Company's antifraud practices together with management and the Audit Committee;
- investigation of suspected fraudulent activities within the Company and notifying the results to the management and the Audit Committee;
- Ensure the principles of integrity, objectivity in its work, and adherence to policies and procedures designed to guide the internal audit.

The IAD meets regularly with external auditors for discussion of an internal and external audit schedules and for sharing with professional experience. These meetings also ensure that two functions (internal and external) are coordinated and there is no duplication.

Diversity policy

On November 10, 2016 the Board of Directors has approved the Company's Diversity Policy as recommended by provisions I.Z.1.15 of the WSE Code and provision 2.1.5 of the Code. The Diversity Policy is published at the Company website at: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

The diversity policy of the Company is a part of a long-term vision which can ensure realization of the Company's business strategy and achievement of business priorities. Diversity principles are incorporated into all aspects of human resource management in the Company, such as workforce planning, recruitment and selection, performance management, learning and development, leadership development etc.
The Company values and respects people with diverse backgrounds and perspectives.
The Company's diversity policy for employees includes several aspects:

- Equal employment opportunity - the Company encourages a gender-balanced employment of professionals with different backgrounds, a merit-based promotion, and culture that does not tolerate discrimination or harassment during the employment;
- Workplace safety - the Company provides a healthy and safe workplace with a positive working atmosphere for all employees; the Company are adapting the workplace for its employees with disabilities and all other employees to accommodate their special needs, and to make their workplace more safe and comfortable;
- Respect and inclusion - the Company ensures the understanding and fulfillment of the diversity policy by all the employees and works on improved relationships, understanding and teamwork between employees, based on mutual respect of individual diversity;
- Diversity support – the Company promotes equal pay and gender diversity within the Company and provides employment opportunities for people with disabilities.

The Company constantly improves and supports its internal and external diversity initiatives.

The WSE Code and the Code recommends that the composition of management bodies of the Company shall be diverse in terms of gender, age, education, professional experience. In the Company the management and supervisory duties are performed by the Board of Directors, which in 2018 consisted of six men and one woman, of diverse age, nationality and professional background. The Company understands and supports this recommendation and considers involving more women in the Board of Directors.

Compliance with the WSE Code and the Code

On October 13, 2015 Supervisory Board of WSE approved Best Practice for GPW Listed Companies 2016 (WSE Code), effective as from January 01, 2016. The Company incorporated in the Netherlands is subject to the provisions and principles of the Code. However, since its shares listed on WSE, the Company is subject to the principles of corporate governance set out in the WSE Code. On May 13, 2016 the Company has published its Report on compliance with WSE Code on its corporate website at: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

Since the WSE Code rules are similar to the rules provided under the Code, the Company complies with a majority of the principles and best practice provisions of the Code as well.

It is noted that the one-tier board structure of the Company deviates from the recommendations of WSE Code, which prescribes the existence and functioning of two separate governing bodies. However the Company's one-tier board structure corresponds to the recommendation of the Code and best suits to the Company's management goals.

The Company explains why it does not comply with the following recommendations of the WSE Code and the Code:

- Company pursues sponsorship and charity activities, but does not have an established policy in this respect. As a result annual reports do not publish information about a relevant policy as recommended by provision I.R.2 of the WSE Code.

The Company published the selected financial data for the last 5 years on the website in addition to the periodic financial reports to comply with provision I.Z.1.8 of the WSE Code.

On 30 June 2017 the Company published current division of duties and responsibilities for the Company's Directors on the website to comply with provisions I.Z.1.3, II.Z.1 of the WSE Code.

On 19 May 2017 the Company published on its corporate website the information about an absence of specific internal rule which recommended by provision I.Z.1.11 of the WSE Code. The Company stated that it follows applicable Dutch laws regarding changing the company authorized to audit financial statements of the Company, and the Company believes that the continuity of the external auditor limited by the applicable Dutch laws would be more beneficial for the Company.

More information is published in the Company's Report on compliance with WSE Code and on its corporate website.

The Company explains why the following best practice provisions of the Code are not applied:

In deviation from provision 2.3.2 and chapter 3 of the Code, the Company has not established a remuneration committee nor a selection and appointment committee. The remuneration of members of the Board of Directors of the Company is defined by shareholders on Annual General Meetings each year. The Board of Directors conducts the relevant duties that are charged upon this committee on the basis of the Code.

Principles 2.2.1 of the Code provides that a management board member is appointed for a maximum period of four years, a member may be reappointed again for a term of not more than four years at a time. The Company does not comply with this best practice provision of the Code due to its Executive Directors Mr. Anatoliy Yurkevych and Mrs. Olga Yurkevich have been acting as an Executive Directors of the Company since 2007 year. Below the Company explains the reason for such reappointment.

Principle 2.2.2 of the Code provides that a supervisory board member is appointed for a maximum period of four years and may be reappointed one another four-year period. The supervisory board members may subsequently be reappointed again for a period of two years, which appointment may be extended by at most two years. The Company does not comply with this best practice provision of the Code due to Mr. Vyacheslav Rekov and Mr. Willem Scato van Walt Meijer have been acting as the Company's Non-Executive Directors since 2007 and 2010 years respectively. Below the Company explains the reason for such reappointment.

The Company believes that, in deviation from the provisions 2.2.1 and 2.2.2 of the Code reappointment of the abovementioned members of the Board of Directors has a positive impact to the Company's business activity and that these members act in the best Company's interests. The Directors has a wide experience and a deep understanding of the Company's business processes and made a substantial contribution to the Company's development.

The Company's application of the Code is described in the Report on compliance by Milkiland N.V. with the revised Dutch Corporate Governance Code of 2016 as approved on 14 November 2018 by the Board of Directors, which can be found at:

http://www.milkiland.nl/en/investors/general_information/corporate_documents/
In each subsequent year the Company will explain its compliance with the Code as a separate section of the corporate governance report.

Report of Non-Executive Directors

In 2018 Mr. Pavlo Sheremeta, Mr. Vyacheslav Rekov, Mr. Willem Scato van Walt Meijer, Mr. Oleg Rozhko, and Mr. George Christopher Logusch proceeded to perform their duties as Non-Executive Directors of the Company. The profiles of Non-Executive Directors of the Company is published at the Company's website by the following link: http://www.milkiland.nl/en/company/sovet_direktorov/

The Non-Executive Directors are charged with supervising, monitoring and advising the Executive Directors with respect to all responsibilities of the Board of Directors. The statements of fulfillment of the independence criteria were provided by all Non-Executive Directors: Mr. Willem Scato van Walt Meijer, Mr. George Christopher Logusch, Mr. Oleg Rozhko, Mr. Vyacheslav Rekov, and Mr. Pavlo Sheremeta.

The Non-Executive Directors drew up the retirement schedule with the information regarding the total years of appointment and information on next reappointment of the members of the Board of Directors which is published at the Company's website at: http://www.milkiland.nl/en/investors/general_information/corporate_documents/

In carrying out their tasks, all of the above mentioned Non-Executive Directors gave their advice and expertise for the best Company practice. Mr. Oleg Rozhko is a Chairman of the Board of Directors, Mr. Willem Scato van Walt Meijer is a Chairman of the Audit Committee and Mr. Vyacheslav Rekov and Mr. Pavlo Sheremeta are members of the Audit Committee. The Audit Committee met 11 (eleven) times during 2018 financial year. The duties of the Audit Committee were duly performed. The Audit Committee provided their Audit Committee Opinion which is a part of the Report.
Throughout the 2018 the Non-Executive Directors worked on creation and implementation the long term-value creation strategy and risks associated with it, and as a part of this, had an active dialogue with the Executive Directors. This resulted in adoption of the new Remuneration Policy of the Company on 15 of June 2018 (at the general meeting of shareholders) and adoption of the Internal Audit Department Charter on 14 November 2018.

As a contribution to a long-term strategy, in 2018 the Non-Executive Directors together with Executive members of the Board discussed the fraud prevention measures in the Company, and as a part of this a Speak up Policy is considered to be implemented in the Company. The Speak up Policy will allow and encourage employees and third parties to report identified or suspected misconduct and irregularities confidentially.

There were no irregularities in the 2018 financial year that required interventions by the Non-Executive Directors.

Remuneration policy and remuneration report

The objective of the Group's remuneration policy is to provide a compensation program allowing for the attraction, retention and motivation of members of the Board of Directors who have chartered traits, skills and background to successfully lead and manage the Company. The remuneration policy focuses on long-term value creation for the Company and its subsidiaries and takes into account the internal pay ratios within the Company.

The updated Remuneration Policy of the Company is adopted on 15 June 2018 and published on the Company's website:
http://www.milkiland.nl/en/investors/general_information/corporate_documents/
The Remuneration Policy is based on best principles of the Code.

The remuneration of members of the Board of Directors is defined by shareholders on Annual General Meetings each year pursuant to proposals of the Board of Directors. The remuneration of the Board of Directors is not dependent on the results of the Company.

Individual-specific responsibilities are taken into consideration in respect of the determination and differentiation of the remuneration of the members of the Board of Directors.

The Group's policy towards the members of the Board of Directors and Key Executives, as well as employment contracts of the members of the Board of Directors and Key Executives do not provide for any benefits in the case of dismissal or termination of such person's service, employment contract or other similar agreement. The members of the Board of Directors and Key Executives are not granted any pensions, retirement or similar benefits.

Information about the remunerations accrued to the Company's Directors in 2018 for rendered services is presented in the table below.

Name	Position in 2018	Appointed	Gross Remuneration (EUR)	Period of accrual	Expenses reimbursement (EUR)	Total (EUR)
Oleg Rozhko	Chairman of the Board of Director	22.06.2012	30,000	from 01.01.2018 to 31.12.2018	0	30,000
Olga Yurkevich	Executive Director, Chief Production Officer	28.08.2007	25,000	from 01.01.2018 to 31.12.2018	0	25,000
Anatoliy Yurkevych	Executive Director, CEO	28.08.2007	5,000	from 01.01.2018 to 31.12.2018	0	5,000
Vyacheslav Rekov	Non-executive Director, Member of Audit Committee	28.08.2007	30,000	from 01.01.2018 to 31.12.2018	0	30,000
Willem Scato van Walt Meijer	Non-executive Director, Head of Audit Committee	06.12.2010	50,000	from 01.01.2018 to 31.12.2018	18,194	68,194
George Christopher Logusch	Non-Executive Director	21.06.2013	0	from 01.01.2018 to 31.12.2018	0	0
Pavlo Sheremeta	Non-Executive Director, Member of Audit Committee	30.06.2017	25,000	from 01.01.2018 to 31.12.2018	0	25,000

Directors' remuneration stands for directors' fees, salaries of Executive Directors, bonuses and other incentive payments. The Company's remuneration policy in 2018 provided for reimbursement of Directors expenses incurred in connection with their service for the Company, including attendance of the Board of Directors or its committees meetings.

REPRESENTATIONS OF THE BOARD OF DIRECTORS

Representation of the Board of Directors on the Compliance of Annual Financial Statements

The Board of Directors hereby represents, to the best of its knowledge, that the statutory financial statements of the Company and its consolidated subsidiaries for the year ended 31 December 2018 are prepared in accordance with the applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position and the result of the Company and its consolidated subsidiaries, and that the report of the Board of Directors for the year ended December 31, 2018 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at December 31, 2018 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended December 31, 2018, including a description of the key risks that the Company is confronted with.

Representation of the Board of Directors on Appointment of an Entity Qualified to Audit Annual Financial Statements

The Board of Directors hereby represents that Accon avm, which performed the audit of the statutory financial statements of the Company for the year ended December 31, 2018, has been appointed in accordance with the applicable laws and that this entity and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with the applicable provisions of law.

Representation of the Board of Directors Relating to the System of Internal Control

In line with best practice provision 1.4.2 and provision 1.4.3 of the Code and bearing in mind the recommendations of the Code, the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2018, the Board of Directors assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analysis that was carried out at the Company within the framework of governance and compliance, the Board is of the opinion, after consulting with the Audit Committee, that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. There is an inherent limitation in that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty in regards to the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2018.

Representation of the Board of Directors on the long-term value creation and realization

The Board of Directors is guided in its duties by the interests of the Company and its subsidiaries and focuses on the long-term value creation strategy, taking into careful consideration the relevant interests of its shareholders. The contributions made to the long-term value creation realization in the financial year 2018 are as follows:

- making decision in line with the Company's long-term value creation strategy;
- adoption of new Remuneration Policy on June 2018 (at the general meeting of shareholders);
- adoption of the Internal Audit Department Charter on 14 November 2018.

In 2019 the Board of Directors will continue developing and implementing the long-term value creation strategy as recommended by the best practice provisions of the Code

Board of Directors of Milkiland N.V.

Amsterdam, 30 April 2019

A. Yurkevych

O. Yurkevich

O. Rozhko

V. Rekov

W.S. van Walt Meijer

G.C. Logusch

P. Sheremeta

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	334	1,416
Trade and other receivables	7	19,172	19,406
Inventories	8	10,078	8,713
Current biological assets	13	1,343	1,302
Current income tax assets		822	783
Other taxes receivable	9	6,117	5,194
		37,866	**36,814**
Non-current assets			
Goodwill	10	1,300	1,474
Property, plant and equipment	11	90,773	99,679
Investment property	12	18,070	16,732
Non-current biological assets	13	1,938	1,251
Other intangible assets	11	1,530	1,993
Deferred income tax assets	29	70	2,472
Other Non-current assets		362	-
		114,043	**123,601**
TOTAL ASSETS		**151,909**	**160,415**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	53,971	40,778
Current income tax liabilities		346	807
Other taxes payable	15	5,071	5,474
Short-term loans and borrowings	16	83,425	75,800
		142,813	**122,859**
Non-current liabilities			
Loans and borrowings	16	2,530	10,756
Deferred income tax liabilities	29	11,054	13,760
Other non-current liabilities		716	118
		14,300	**24,634**
Total liabilities		**157,113**	**147,493**
Equity attributable to owners of the Company			
Share capital	17	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve	18	75,220	79,403
Currency translation reserve	19	(36,126)	(38,042)
Retained earnings		(97,358)	(81,481)
		(6,452)	**11,692**
Non-controlling interests		**1,248**	**1,230**
Total equity		**(5,204)**	**12,922**
TOTAL LIABILITIES AND EQUITY		**151,909**	**160,415**

MILKILAND N.V.
Consolidated income statement
(All amounts in euro thousands unless otherwise stated)

	Notes	2018	2017
Revenue	21	132,595	140,411
Change in fair value of biological assets	22	111	-
Cost of sales	23	(113,200)	(116,719)
Gross profit		**19,506**	**23,692**
Selling and distribution expenses	24	(11,471)	(11,572)
Administrative expenses	25	(12,791)	(12,204)
Other income/(expenses), net	26	(5,366)	672
Operating profit		**(10,122)**	**588**
Finance income	27	227	1,130
Finance expenses	28	(10,274)	(8,960)
Foreign exchange gain/(loss), net		-	-
Loss before income tax		**(20,169)**	**(7,242)**
Income tax expense	29	84	(104)
Net loss for the year		**(20,085)**	**(7,346)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Gains on revaluation of properties		-	20,860
Tax effect on revaluation of properties		-	(3,555)
		-	**17,305**
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		1,959	(3,951)
Total other comprehensive income/(loss)		**1,959**	**13,354**
Total comprehensive income/(loss)		**(18,126)**	**6,008**
Loss attributable to:			
Owners of the Company		(20,032)	(7,672)
Non-controlling interests		(53)	326
		(20,085)	**(7,346)**
Total comprehensive loss attributable to:			
Owners of the Company		(18,144)	5,887
Non-controlling interests		18	121
		(18,126)	**6,008**
Earnings per share, EUR	33	**(0.64)**	**(0.25)**

MILKILAND N.V.
Consolidated statement of cash flow
(All amounts in euro thousands unless otherwise stated)

	Notes	2018	2017
Cash flows from operating activities:			
Loss before income tax		**(20,169)**	**(7,242)**
Adjustments for:			
Depreciation and amortization	11	10,245	10,361
(Gain)/loss from disposal and write off of inventories	26	448	175
Change in provision and write off of trade and other accounts receivable	26	1,016	87
Change in provision and write off of unrealized VAT	26	(63)	131
(Gain)/loss from disposal of non-current assets	26	364	(1,800)
(Gain)/loss on revaluation of property, plant and equipment	26	1,625	1,130
Change in fair value of biological assets	22	(111)	(269)
Operational foreign exchange results, net	26	(431)	(233)
Finance income	27	(227)	(1,130)
Finance expenses	28	10,274	8,960
Write off of accounts payable	26	(13)	(2)
Operating cash flow before movements in working capital		**2,958**	**10,168**
Increase in trade and other accounts receivable		2,309	(461)
Decrease/(increase) in inventories		(2,584)	2,464
(Increase)/decrease in biological assets		(460)	(172)
(Decrease)/increase in trade and other payables		3,550	(1,266)
Decrease/(increase) in other taxes receivable		(16)	20
Increase/(decrease) in other taxes payable		(981)	2,181
Net cash provided by operations		**4,776**	**12,934**
Income taxes paid		(955)	(449)
Interest received		59	32
Interest paid		(753)	(1,521)
Net cash provided by operating activities		**3,127**	**10,996**
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(1,060)	(2,811)
Proceeds from sale of property, plant and equipment		27	-
Acquisition of subsidiaries, net of cash acquired		-	-
Net cash used in investing activities		**(1,033)**	**(2,811)**
Cash flows from financing activities:			
Proceeds from borrowings		145	2,298
Repayment of borrowings		(2,571)	(10,222)
Dividends paid	20	-	-
Commissions paid		-	-
Net cash provided by/(used in) financing activities		**(2,426)**	**(7,924)**
Net decrease in cash and equivalents		**(332)**	**261**
Cash and equivalents, beginning of year	6	**1,416**	**1,044**
Effect of foreign exchange rates on cash and cash equivalents		(750)	111
Cash and equivalents, end of year	6	**334**	**1,416**

(All amounts in euro thousands unless otherwise stated)

		Attributable to equity holders of the company							
	Notes	Share capital	Share premium	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
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 year		-	-	-	-	(20,032)	**(20,032)**	(53)	**(20,085)**
Revaluation of PPE		-	-	-	-	-	**-**	-	**-**
Other comprehensive gain/(loss), net of tax effect		-	-	1,916	(14)	(14)	**1,888**	71	**1,959**
Total comprehensive income for the year		**-**	**-**	**1,916**	**(14)**	**(20,046)**	**(18,144)**	**18**	**(18,126)**
Realized revaluation reserve, net of income tax	18	-	-	-	(4,169)	4,169	**-**	-	**-**
Balance at 31 December 2018		**3,125**	**48,687**	**(36,126)**	**75,220**	**(97,358)**	**(6,452)**	**1,248**	**(5,204)**
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 year		-	-	-	-	(7,672)	**(7,672)**	326	**(7,346)**
Revaluation of PPE		-	-	-	17,305	-	**17,305**	-	**17,305**
Other comprehensive gain/(loss), net of tax effect		-	-	(3,745)	(1)	-	**(3,746)**	(205)	**(3,951)**
Total comprehensive income for the year		**-**	**-**	**(3,745)**	**17,304**	**(7,672)**	**5,887**	**121**	**6,008**
Realized revaluation reserve, net of income tax	18	-	-	-	(7,109)	7,109	**-**	-	**-**
Balance at 31 December 2017		**3,125**	**48,687**	**(38,042)**	**79,403**	**(81,481)**	**11,692**	**1,230**	**12,922**

Notes to the consolidated financial statements

1 The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the year ended 31 December 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 of the Company on 18 April 2019 and are subject to adoption by the shareholders during the General Shareholders Meeting.

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 Amsterdamse Bos, Cuserstraat 93, 1081 CN Amsterdam, the Netherlands and the principal place of business is 9, Boryspilska Str., 02090, Kyiv, Ukraine. Chamber of Commerce number is 34278769.

The authorized share capital of the company amounts to EUR 5,000,000 consisting of 50,000,000 ordinary shares with a nominal value of EUR 0.10 each.

The designation may be renewed each time for a period not exceeding five years. No designation made pursuant to a resolution passed by the General Meeting of Shareholders may be cancelled, unless cancellation of such designation was specifically permitted in the applicable designation. For as long as the Board of Directors is designated, the General Meeting of Shareholders shall not have this power.

As at 31 December 2017 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevich. 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 EU and CIS, with the key markets in Russia, Ukraine and Poland. The production facilities of the Group are located in these 3 countries and are able to process up to 1,330 thousand tons of milk per year. The plants purchase milk from local farmers and produce different kind of dairy products, including, cheese, butter, whole-milk products, as well as dry milk products.

As at 31 December 2018 the Group employed 3,238 people (2017: 3,447 people).

For the period from 1 January 2018 to 31 December 2018 the Company had the following direct and indirect subsidiaries:

Name	Country of incorporation	Principal activity	Effective share of ownership 31 December 2018	31 December 2017
MLK Finance Limited	Cyprus	Trade	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	Trade	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	Trade	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	Managing/Trade	100.0%	100.0%
Ostrowia sp. z.o.o	Poland	Production entity	100.0%	100.0%
UA TRADE Sp. z o.o.	Poland	Trade	100.0%	100.0%
JSC Ostankino Dairy	Russia	Production entity	100.0%	100.0%
LLC Ostankino Dairy	Russia	Production entity	100.0%	100.0%
LLC Milkiland RU	Russia	Managing/Trade	100.0%	100.0%
LLC Moloko-Kursk	Russia	Production entity	100.0%	100.0%
LLC Novomoskovsk Dairy Combine	Russia	Production entity	100.0%	100.0%
DE Aromat	Ukraine	Production entity	100.0%	100.0%
PE Prometey	Ukraine	Production entity	100.0%	100.0%
PE Ros	Ukraine	Production entity	100.0%	100.0%
LLC Malka-trans	Ukraine	Production entity	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	Production entity	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	Trade	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	Production entity	76.0%	76.0%
PrJSC Gorodnia Milk Plant	Ukraine	Production entity	95.2%	95.2%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%
LLC Milkiland Ukraine	Ukraine	Managing company	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	Production entity	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	Production	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	Trade	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	Trade	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	Trade	100.0%	100.0%
LLC Milkiland N.V	Ukraine	Managing company	100.0%	100.0%
PrJSC Transportnyk	Ukraine	Service provider	70.3%	70.3%
LLC Milkiland Agro	Ukraine	Agricultural	100.0%	100.0%
DE Agrolight	Ukraine	Production entity	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	Agricultural	100.0%	100.0%
LLC Bahmachregionpostach	Ukraine	Grain elevator	100.0%	100.0%
ALLC Nadiya	Ukraine	Agricultural	100.0%	100.0%
LLC Uspih-Mena-Plus	Ukraine	Agricultural	100.0%	100.0%
LLC Agro-Mena	Ukraine	Agricultural	100.0%	100.0%
LLC Lendinvest 3000	Ukraine	Investment assets	100.0%	100.0%
LLC Agrolendinvest	Ukraine	Investment assets	100.0%	100.0%
LLC Phobostrade	Ukraine	Investment assets	100.0%	100.0%
LLC Kilchensky Berig	Ukraine	Investment assets	100.0%	100.0%
PrJSC Iskra Plus	Ukraine	Agricultural	98.1%	98.1%
LLC Kholod Property	Ukraine	Production entity	100.0%	100.0%
LLC Syrnyy Mayster	Ukraine	Production entity	100.0%	100.0%
Milkiland Corporation	Panama	Trade	100.0%	100.0%
Newholm Systems S.A.	Panama	Trade	100.0%	100.0%
Agrointer Corporation	Panama	Trade	100.0%	100.0%
LLC Cross Value	Marshall Isl.	Trade	100.0%	100.0%
Dominic Supreme LP	Scotland	Trade	100.0%	100.0%

Going concern assumptions.

Financial situation as per 31 December 2018

Key financial indicators 2018

Per December 31, 2018 the equity of Milkiland amounts to € 5.2 million negative. A loss amounting to € 16.7 million has been realized over 2018. Operating cash flows were positive amounting to € 3.1 million and the net cash flow was negative for € 0.3 million.

Loan covenants

As at 31 December 2018 the Group was in breach of certain financial covenants under a few bank loans mostly due to devaluation of the local currency. This situation started in 2014 and is still applicable. The breaches relate to the following covenants:

- 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.

Non-compliance with covenants gives banks a formal right to demand early repayment of loans. The management notified all banks about expected prospective non-compliances. Since October 2018 Milkiland has been participating in legal claims on recovery of the real estate and movable property of several Ukrainian subsidiaries of the Group mortgaged to the Lenders.

Local operations

In the course of 2017 the Arbitration Court of the City of Moscow declared the JSC ”Ostankino Dairy” bankrupt based at the claim of one of its Creditors, Bank “Vozrozhdenie” (for more detailed information relating to the bankruptcy process and status please refer Material Factors and Events in the Report of the Board of Directors).

The Polish operations are currently financially supported by the Group due to the loss making operations.

The above circumstances could materially affect the ability of Milkiland to continue as a going concern.

Historical background

The Group conducts significant part of its operations in Russia and Ukraine. On the back of the conflict between these two countries, which, inter alia, led to the closure of traditional Russian markets for Ukrainian dairy, as well as the implementation of the sanctions against Russia by US, EU and several other countries and macroeconomic situation in both countries in 2014-2015 deteriorated significantly. In particular, Ukraine faced a full scale economic crisis with the GDP drop, declining international trade and deep devaluation of the national currency while, Russian economy came to stagnation. The real income of the population in Russia and Ukraine deteriorated, which triggered the contraction of the consumption of the FMCG goods, including dairy.

The closure of the traditional Russian export market for the Group’s Ukrainian and Polish subsidiaries, deep devaluation of Russian Rouble and Ukrainian hryvnya, decline of the demand for dairy in Russia and Ukraine made an adverse effect at the Group’s financial position and performance in 2014-2015.

The macroeconomic stabilization of 2016 and the return of the economies of Ukraine and Russia to growth in 2017-2018 provides to Milkiland an opportunity to capitalize on growing customers confidence and, in the nearest years, restoration of the demand for quality dairy in these key markets for the Group’s business. But the timing and the dynamics of this process is not currently determinable. Due to this, adverse effect of still limited customer demand, as well as remained macroeconomic imbalances, for example, expected further devaluation of UAH, may adversely affect the Group’s operations and financial performance.

Matters considered in determining the appropriateness of the going concern assumption

Syndicate loan

The Group’s management is in progress of refinancing of the indebtedness to the Syndicate amounting to € 51.16 million. In March 2019 Milkiland has published the official information regarding the assignment of the indebtedness in the sum of USD 29.29 million (50% of the Syndicate Loan) under Facility Agreement to a New Lender, namely Swestal Holding ltd. The detailed terms and conditions are currently being agreed upon. The Group's management plans to continue the negotiations on the restructuring of the remaining other 50% indebtedness with a new lender and hopes to achieve the progress on this issue in the near future.

Ostankino's Creditors

With regards to the JSC "Ostankino Dairy" bankruptcy, this event caused another possible material threat to the going concern ability of Milkiland and its operations in the Russian market and Moscow region. The ability of the Group to continue its operations there is dependent on upcoming negotiations during the bankruptcy procedures and finding of the mutually acceptable solution of the settlement of the indebtedness to Ostankino's Creditors. The current situation is similar to last year.

Other

Besides refinancing of the Syndicate Loan and the settlement of the indebtedness to Ostankino's Creditors, the Group is in progress of improving the profitability and cash flows for the Group as a whole, which includes the Polish segment. This includes plans to generate wholesale business and expanding business to different countries, as included in the strategic plans of the Group and partially depending on the ability to refinance the Syndicate Loan.

In conclusion

The ability of the Group to continue its operations is dependent upon the Syndicate to continue the current financing until refinancing or restructuring is arranged and the upcoming negotiations with the Syndicate and third parties and finding a mutually acceptable solution of the settlement of the indebtedness to Ostankino's creditors as well as improvement of future profitability and cash flows.

Based on the going concern assessment - the material uncertainty regarding the going concern assumption combined with the matters considered in determining the appropriateness of the going concern assumption - made by management, the Group concluded that it is deemed appropriate to prepare the financial statements on the going concern basis.

2 Summary of significant accounting policies

Basis of presentation. These consolidated financial statements of the Group have been prepared in accordance with the requirements of International Financial Reporting Standards (further - IFRS) as endorsed by the European Union and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

These consolidated financial statements of the Group have been prepared using the historical cost convention, as modified by the revaluation of property, plant and equipment, and certain financial instruments measured in accordance with the requirements of IAS 39 *Financial instruments: recognition and measurement*.

New and revised Standards and Interpretations to be applied by the Company

IFRS 9 Financial Instruments

The Company has applied IFRS 9 *Financial Instruments* (IFRS 9), beginning from 1 January 2018. This standard replaced the previous IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual 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.

The Company did not recalculate the comparative information that was presented in accordance with IFRS 39. The difference arising from the application of IFRS 9 was recognized directly in the retained earnings and other equity components at the date of first-time adoption – 1 January 2018. The definition of a business- model within which the financial asset is, was made on the basis of the facts and circumstances that existed at the date of the first-time adoption of IFRS 9. Analysis of whether contractual cash flows for debt instruments are solely payments of the principal and interest was performed on the basis of the facts and circumstances that existed at the time of the initial recognition of these assets.

The requirements of IFRS 9 for classification and measurement did not have a significant effect on the Company.

The application of IFRS 9 changed the approach to calculating impairment losses on financial assets. Instead of the incurred loss method used by IAS 39, the expected credit loss model is applied.

The Company applies the simplified approach of IFRS 9 to estimating expected credit losses on trade and other receivables. To assess expected credit losses, trade and other receivables were distributed according to the general characteristics of credit risk and ageing.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

In accordance with IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), revenue is recognized when goods or services are transferred to a customer in the amount of compensation to which the Company expects to receive the right in exchange for transferring the promised goods or services to the buyer.

The Company applied IFRS 15 from 1 January 2018 using a modified retrospective approach. Under this transition method, the Company applied the standard only to those contracts that are not executed at the date of transition to IFRS 15.

When using a modified retrospective approach, the cumulative effect of the first-time adoption of IFRS 15 is recognized at the date of the first-time adoption as an adjustment to the opening balance of retained earnings (as of 1 January 2018). In doing so, comparative information has not been restated and is still presented in accordance with IAS 18.

The Company analyzed the impact of IFRS 15 on its accounting policies and financial statements, during which various streams of income of the Company were considered. According to the Company's management, changes in accounting policies do not have a significant impact on the financial statements and do not require adjustment of retained earnings as of 1 January 2018.

Application of other IFRSs

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

Amendments address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. These amendments do not have any impact on the Company's financial statements.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

These amendments did not have any impact on the Company's financial reporting.

Amendments to IAS 40 *Investment Property*. The amendments clarify the procedure for the transfer of property to/from the category of investment property. Transfers are made if and only if there is an actual change in the nature of the use of the object - i.e. when the asset begins or stops meeting the definition of investment property and there is evidence of a change in the nature of its use. A change in management's intentions regarding an asset does not in itself constitute a basis for its transfer to another category. The revised examples of factors proving a change in the nature of the use of an asset that the Board included in the amended edition of IAS 40 are not exhaustive - i.e. other forms of evidence are possible that give rise to the transfer of an asset. The amendments did not affect the Company's financial statements.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the Company must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

Annual IFRS Improvements (2014 – 2016 period).

IFRS 1 *First-time adoption of IFRS*.

IFRS 1 has been amended to remove short-term exemptions dealing with IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IFRS 10 *Consolidated Financial Statements*. The reliefs provided are no longer applicable and had been available to entities for reporting periods that have now passed.

IAS 28 *Investments in Associates and Joint Ventures*.

IAS 28 has been amended to clarify that a venture capital organization, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) may choose, on an investment by investment basis, to account for its investments in joint ventures and associates at fair value or using the equity method. The amendment also makes it clear that method chosen for each investment is to be made on initial recognition.

Improvements did not have any impact on the Company's financial statements.

IFRS and IFRIC interpretations not yet effective

IFRS 16 *Leases*. IFRS 16 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 remeasure 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 remeasurement of the lease liability as an adjustment to the right-of-use asset.

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.

The Company has not assessed the impact of IFRS 16 on the reporting date.

IFRS 17 Insurance Contracts. IFRS 17 is a 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 9 - *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at fair value or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of the principal and interest on the outstanding principal amount" (SPPI criterion) and the instrument is within the relevant business model allowing such a classification.

The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of which event or circumstance leads to early termination of the contract, and also regardless of which party pays or receives a reasonable compensation for early termination of the contract.

These amendments are applied retrospectively and come into force for annual periods beginning from 1 January 2019. Early application is allowed. These amendments will not affect the Company's financial statements.

Amendments to IFRS *Consolidated Financial Statements and IAS* 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the contradiction between IFRS 10 and IAS 28, in terms of accounting for the loss of control over a subsidiary that is sold to or contributed to a dependent organization or joint venture. The amendments clarify that profit or loss resulting from the sale or contribution of assets constituting a business, as defined in IFRS 3, in a transaction between an investor and its associate or joint venture is recognized in full. However, profit or loss resulting from the sale or contribution of assets that are not a business is recognized only to the extent of participation interests held by non-organization investors in a dependent organization or joint venture.

The IASB has postponed the effective date of this amendment for an indefinite period, but early application is permitted prospectively.

Amendments to IAS 19 *Employee Benefits - Plan Amendment, Curtailment or Settlement*

The amendments address the accounting treatment in cases when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments clarify that if a plan amendment, curtailment or settlement occurs during the reporting period, an entity must determine the cost of the services of the current period and the net interest in relation to the rest of the period after the plan amendment, curtailment or settlement based on the actuarial assumptions and discount rates used to reassess the net defined benefit plan liability (asset).

These amendments apply to events that occurred on or after the start of the first annual reporting period beginning on or after 1 January 2019. Early application is allowed. These amendments will apply only to future plan amendment, curtailment or settlement.

Amendments to IAS 28 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that does not use the equity method, but which, in fact, form part of the net investment in an associate or joint venture (long-term investments). It is understood that the model of expected credit losses according to IFRS 9 is applied to such long-term investments.

The amendments also explain that when applying IFRS 9, an entity does not take into account losses incurred by an associate or joint venture or loss from impairment of net investments recognized as adjustments to a net investment in an associate or joint venture arising from the application of IFRS 28 Investments in Associates and Joint Ventures.

These amendments are applied retrospectively and are effective for annual periods beginning on or after 1 January 2019. Application is allowed before this date. The amendments will have no impact on the Company's financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments.*

Whenever requirements of tax legislation are unclear in relation to a particular operation or to specific circumstances, the main criterion is whether the probability is high that the tax authority will agree with the tax claims interpretation chosen by an entity.

If the answer is positive, the entity shall reflect the same amount in the financial statements and consider the need to disclose the existence of uncertainty. If the answer is negative, the amount reported in the financial statements will differ from the amount in the tax return, because it is estimated taking into account the existing uncertainty.

To reflect this uncertainty, one of the following two estimation methods is used, depending on which one will allow to a high accuracy to predict the outcome of the uncertainty:

- the most likely amount, or
- the expected value.

The Interpretation also requires that judgments and estimates that have been formed by the entity were reviewed in the event of a change in facts and circumstances - for example, due to a tax audit or actions taken by the tax authorities, subsequent changes to the tax rules, or after the expiration of the period during which the tax authority has the right to verify the correctness of the tax calculation.

The interpretation is applied to annual periods beginning on or after 1 January 2019; early application is permitted. Currently the Company is assessing the impact of IFRIC 23 application on the financial statements.

Amendments to IAS *1 Presentation of Financial Statements* and IAS *8 Accounting Policies, Changes in Accounting Estimates and Errors* in respect of materiality determination

The IFRS Committee decided to clarify the definition of materiality, making it more consistent and suitable for all standards. The previous definition in IAS 1 emphasized that the omission or incorrect reflection of significant elements affects the economic decisions of users made on the basis of financial statements. In the new definition, information is considered material if its omission, incorrect reflection or hiding in the financial statements may, in accordance with reasonable expectations, influence the decision of the main users of general-purpose financial statements, who make them based on such financial statements that contain information about the specific reporting entity.

The amendments apply to periods beginning on or after 1 January 2020; early application is permitted. The amendment will not affect the Company's financial statements.

Amendments to IFRS 3 *Business Combinations*

The amendments clarify the key definition of business.

In the prior definition, business was defined as a set of activities and assets that can be managed to provide income in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

According to the new definition, a business is an integrated set of processes and assets capable of implementation and management in order to provide goods or services to customers, generation of investment income (such as dividends or interest) or generation of other income from ordinary activities.

The amendments apply to periods beginning on or after 1 January 2020; early application is permitted. The amendment will not affect the Company's financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Consolidated financial statements. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the net assets of the acquired company at each exchange transaction represents goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income.

All intergroup transactions, balances and unrealized gains on transactions between Group companies are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.
Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

IAS 7 Statement of Cash Flow requires an entity to present statement of cash flows as an integral part of its primary financial report. Cash flows of the Group are classified and presented into operating activities, investing and financing activities using indirect method.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Government grants. Government grants received on capital expenditure are included in other non-current liabilities and amortized during the useful life of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the Group. Where retention of a government grant is dependent on the Group satisfying certain criteria, it is initially recognized as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated statement of comprehensive income or amortized during the useful life of the asset purchased.

Property, plant and equipment. Property, plant and equipment is stated at fair value in accordance with IAS 16 and IFRS 13. Fair value is determined by external appraisers who use either the market or cost approach for determining fair value.
Valuation of property and equipment is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Fair value is based on the valuations by external independent appraisal agencies.

Depreciation is charged to the consolidated statement of comprehensive income on a straight line basis to allocate costs of individual assets to their residual value over their estimated useful lives of the assets:

	Useful life, years
Buildings, constructions	20-50
Plant and equipment	5-30
Other	1-15

Construction in progress represents the cost of property, plant and equipment, including advances to suppliers, which has not yet been completed. No depreciation is charged on such assets until they are available for use.

Any revaluation surplus is credited to the asset revaluation reserve included in the net assets attributable to participants in the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation discount is recognized in profit or loss, except that a discount directly compensates a previous surplus of the carrying amount of these assets during a previous period and refers to the revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revaluation carrying amount of the asset and depreciation based on the asset original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated with immediate decrease of the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on retirement of the asset (calculated as the difference between the net disposals proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets (excluding goodwill). Intangible assets acquired separately are measured on initial recognition at an original cost. The original cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of comprehensive income in the reporting year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be definite.
Intangible assets with definite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a definite useful life are reviewed at least at each reporting year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with definite lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Software is amortized under the straight-line method over its useful life comprising 2-4 years.
Trade Marks of purchased subsidiaries are amortized under the straight-line method over its useful life comprising 10 years.
Land lease rights of purchased subsidiaries are amortized under the straight-line method over its useful life comprising 5-7 years.

Investment property. Investment property is stated at fair value in accordance with IAS 40 and IFRS 13. Fair value is determined by external appraisers who use multiple valuation techniques: cost approach and income approach for determining fair value.
Valuation of investment property is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Fair value is based on valuations by external independent appraisal agencies.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on acquisitions of subsidiaries is included in Intangible assets in the statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Impairment of non-financial assets. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the Statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to amortize the asset's revised carrying amount, less any residual value, on regular basis over its remaining useful life.

Biological assets. The Group classifies livestock (primarily cattle) and unharvested crops as biological assets. Biological assets are carried at their fair value less estimated costs to sell, except when the fair value cannot be measured reliably. If fair value cannot be measured reliably, biological assets are carried at cost less accumulated depreciation and accumulated impairment losses. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Management's estimation of the useful lives of livestock amounts to 8 years.

Gain (loss) from changes in fair value of biological assets included in the consolidated statement of comprehensive income represents the net difference between the excess of the fair value less estimated costs to sell of biological assets over their total cost at the end of reporting period, and the corresponding amount at the beginning of the reporting period.

Agricultural produce. The Group classifies harvested crops as agricultural produce. After harvesting, agricultural produce is treated as inventories.

Inventories. Inventories are valued at the lower of cost and realizable value.

Inventory is accounted for at FIFO method.

Cost includes acquisition costs and the costs related to inventories delivery to their location and bringing to the working condition.

Cost of the inventories manufactured and production in progress includes the cost of raw materials, direct labor input and other direct expenses, as well as appropriate overheads (as calculated in conditions of ordinary use of production capacities). Net realizable value is the estimated selling price less all estimated production costs and the estimated business and distribution costs.

Financial instruments. Financial instruments reported in the Group's statement of financial position include financial investments, loans provided, trade and other receivables, cash and cash equivalents, loans received, trade and other accounts payable. Financial instruments initially are stated at fair value plus transaction costs, except financial instruments at fair value through profit and loss. Financial instruments are stated in the statement of financial position at the moment of bargain in respect of an appropriate financial instrument. Valuation order of financial instrument will be considered below.

Financial instrument or some part of a financial instrument is written off in the financial statements when the Group loses its rights or repays liabilities related to this financial instrument. When financial asset is written off, the difference between received and accrued compensation and carrying amount is recognized in the statement of comprehensive income. When a financial liability is written off, the difference between paid or accrued compensation and a current carrying amount is recognized in the statement of comprehensive income.

Recognition of financial instruments. The Group recognizes financial assets and liabilities in its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

In compliance with IFRS 9 financial assets are divided into 4 categories as follows:

- financial assets at fair value through profit and loss;
- loans and accounts receivable;
- investments held to maturity;
- financial assets available for sale.

When a financial asset or financial liability is recognized initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. When the Group becomes a contractual party, it determines embedded derivatives in the contract, if any. Embedded derivatives are separated from the host contract that is not assessed at fair value through profit or loss in case the economic character and risks of embedded derivatives materially differ from similar quotients of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed or appropriate, revaluates this designation at each financial year-end.

All acquisition or sale transactions related to financial assets on \`standard terms\` are recognized at the transaction date, i.e. at the date when the Group undertakes an obligation to acquire an asset. Acquisition or sale transactions on \`standard terms\` mean acquisition or sale of financial assets that requires to supply an asset within the term determined by legislation or rules accepted in a certain market.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are reflected at amortized cost using the effective interest method after their initial evaluation. Amortized cost is calculated taking into account all discounts or bonuses that arose at acquisition and includes commissions being an integral part of the efficient interest rate as well as transaction costs. Gains and expenses are recognized in the statement of comprehensive income when assets are derecognized or impaired, as well as through the amortization process.
After initial recognition, extended loans are measured at fair value of the funds granted that is determined using the effective market rate for such instruments, if they materially differ from the interest rate on such loan granted. In future loans are measured at amortized cost using the effective interest rate method. Difference between the fair value of the funds granted and loan reimbursement amount is reported as interest receivable during the whole period of the loan. Amortized cost is calculated taking into account all transaction expenses and discounts or bonuses that arose at repayment.

Loans that mature more than 12 months after the consolidated statement of financial position date are included into non-current assets.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Investments held-to-maturity

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Fair value

The Group disclose the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The estimated fair value of financial instruments and liabilities is determined by reference to market information using appropriate methods of evaluation. However, a qualified opinion would be necessary to interpret marketing information for the purpose of fair value estimation. Correspondingly, at evaluation it is not necessary to indicate the estimated realization amount. Using different marketing assumptions and/or valuation techniques might affect the fair value significantly.

The estimated fair value of financial assets and financial liabilities is determined using the discounted cash flows model and other appropriate valuation methods at the year-end; it does not indicate the fair value of such instruments at the reporting date of these consolidated financial statements. Such estimations do not report any bonds or discounts that might result from the proposal to sell simultaneously the whole package of certain financial instruments of the Group. The fair value estimation is based on assumptions as to future cash flows, current economic situation, risks inherent to various financial instruments and other factors.

The fair value estimation is based on existing financial instruments without any attempts to determine the cost of an expected futures transaction and the cost of assets and liabilities not considered to be financial instruments. Besides, tax ramification (branching) related to realization of non-realized profit and loss might impact the fair value estimation and therefore was not accounted for in these consolidated financial statements.

Financial assets and financial liabilities of the Group include cash and cash equivalents, receivables and payables, other liabilities and loans. Accounting policy as to their recognition and evaluation are presented in the relevant sections of these notes.
During the reporting period the Group did not use any financial derivatives, interest swaps or forward contracts to reduce currency or interest risks.

Fair value of biological assets

Due to the absence of an active market as defined by International Accounting Standard IAS 41 Agriculture, the fair value of biological assets is estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

Fair value of agricultural produce

Management estimates the fair value of agricultural produce not sold at the end of reporting period by reference to quoted prices in an active market, as required by International Accounting Standard IAS 41. In addition, costs to sell at the point of harvest are estimated and deducted from the fair value. The fair valueless costs to sell becomes the carrying value of inventories at the date of harvesting.

Non-derivative financial liabilities

At initial recognition financial liabilities can be attributed to those estimated at fair value through profit and loss, if the following criteria are met: (i) attributing to this category excludes or materially reduces inconsistence in accounting methods that might otherwise arise at liability assessment or recognition of profit or loss related to such liability; (ii) liabilities comprise a part of financial liability group that is being managed and results of which are assessed at fair value in compliance with risks management policy; (iii) financial liability includes an embedded derivative that should be reported separately in the consolidated financial statements.

As at 31 December 2018 the Group had no financial liabilities that could be attributed to those estimated at fair value through profit and loss. Trade payables and other short-term monetary liabilities, which are initially recognized at fair value, subsequently carried at amortized cost using the effective interest method. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

Interest expense in this context includes initial transaction costs and discount payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets reported at amortized cost

If there is objective evidence that an impairment loss has been incurred in loans and accounts receivable that are reported at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at initial effective interest rate for such financial asset (i.e. at the effective interest rate calculated at initial recognition). The carrying amount of the asset is reduced directly or using the reserve. The loss amount is recognized in the statement of comprehensive income.

The Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset into a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is recovered. Any subsequent loss recovery is recognized in the statement of comprehensive income in the amount that the carrying amount of an asset should not exceed its amortized cost at the recovery date.

Provision for impairment loss is created in receivables in case there is objective evidence (e.g. a possibility of the debtor's insolvency or other financial difficulties) that the Group might not gain all amounts due to the delivery terms. Carrying amount of receivables is than reduced through the allowance account. Impaired debts are derecognized as soon as they are considered to be bad.

Financial investments available for sale

Impairment losses on available for sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Interest-bearing loans and borrowings. All loans and borrowings are initially recognized at the fair value of the cash amount received less loan related costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at an amortized cost using the effective interest rate method. Gains and losses are recognized in net profit or loss when liabilities retired, as well as through the amortization process.

Trade and other payables. Trade and other payables are recognized and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Leases. The Group leases certain property, plant and equipment. Leases of property, plant, and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.
Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

Contingencies. Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all provisions to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

Employee Benefits. Wages, salaries, contributions to the state pension and social insurance funds, paid annual and sick leave, bonuses and non-monetary benefits are accrued in the period when the associated services are rendered by the employees of the Company.

Revenue and expense recognition. Revenue is recognized when the title of the product passes to the customer and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.
The cost of products sold is recognized at the same time as the corresponding revenue.

Revenue from services rendering under the operating lease is stated in the reporting period when such services were rendered after completion certain transaction estimated on the basis of factual rendered services proportionally to a full scope of services that are to be rendered.

Expenses are accounted for when incurred and reported in the statement of comprehensive income in the period to which they relate.

Income taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred income tax is provided using the consolidated statement of financial position liability method on temporary differences at the reporting date- between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax liabilities are recognized for all taxable temporary differences, except for:

Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent company and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except for:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the-transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each consolidated statement of financial position date and recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be realized.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or (substantively enacted) at the consolidated statement of financial position date. Income tax relating to items recognized directly in net assets attributable to participants is recognized in the net

assets attributable to participants and not in the statement of comprehensive income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and they relate to income taxes imposed by the same taxation authority on the same entity.

Loans provided. Loans provided are accounted for at an amortized cost using the effective interest rate method.

Trade and other accounts receivable. Trade and other receivables are stated at an amortized cost using the effective interest rate method. Provisions in respect to non-recoverable amounts estimated as difference between carrying amount of assets and current value of future cash flows discounted using the effective interest rate calculated at initial recognition, are stated in the statement of comprehensive income, if any impairment evidences of assets are available.

Cash and cash equivalents. Cash and cash equivalents include cash in banks and cash desks, bank deposits and short term investments with maturity up to three months that can be easily converted to respective cash funds and have insignificant risk of their cost change.

Foreign currency

Functional and presentation currency
Items included in these financial statements of each of the Group's entities are measured in the currency that applies to the primary economic environment in which the entities operate (the functional currency). The consolidated figures are presented in euros (EUR), the Group's reporting currency. The group has decided to use euro as the presentation currency because of the listing at the Warsaw Stock Exchange.

Foreign currency transactions
Foreign currency transactions are translated into the functional currency of Group's entities using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the statement of financial position date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "finance income" or "finance expenses" on net basis. All other foreign exchange gains and losses are presented in the statement of comprehensive income within "Other income/(expenses), net".

Non-monetary assets and liabilities carried at historical cost are retranslated at the rates prevailing at the dates of the transactions. Non-monetary assets and liabilities carried at fair value are retranslated at the rates prevailing at the date when the fair values were determined. Foreign currency differences arising on retranslation are recognized in the statement of comprehensive income, except for differences arising on the retranslation of property revaluation under IAS 16 which are recognized in other comprehensive income.

Foreign operations
The financial statements of subsidiaries and associates are prepared in their functional currencies, which are determined based on the primary economic environment in which they operate.
Upon consolidation, the assets and liabilities of foreign operations are translated to euro at exchange rates at the statement of financial position date. The 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 recognized 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 statement of comprehensive income.
The EUR exchange rates used in the preparation of these consolidated financial statements are as follows:

	USD	UAH	RUB	PLN
Average for year ended 31 December 2018	1.1810	32.1135	73.9546	4.2623
As at 31 December 2018	1.1450	31.7031	79.4605	4.3000
Average for year ended 31 December 2017	1.1297	30.0330	65.9014	4.2576
As at 31 December 2017	1.1993	33.6610	68.8668	4.1709

Value added tax (VAT). VAT during sale should be paid to the tax authorities as payments from customers are received. VAT paid during acquisition of goods and services is to be deducted to VAT received during sale, when payment is made for purchased goods and services. Tax authorities allow offsetting VAT. VAT in respect of acquisitions and sales, when settlement is completed at the statement of financial position date (deferred VAT) is stated in the statement of financial position by separate amounts as current assets or liabilities. If the provision was formed to doubtful receivables, this provision is reported in full scope including VAT. Deferred liability on VAT is still being recognized in the financial accounting until receivables are repaid or written off in order provided by the Ukrainian financial accounting rules. Refer to the note 9 for the disclosure of VAT receivable.

Dividend distribution. Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders on general meeting. Amount of the Group's retained earnings that under the current legislation can be transferred to allocation between shareholders, is calculated on the basis of respective financial statements of separate entities of the Group prepared under NAS. These amounts might differ significantly from those calculated under IFRS.

3 Significant 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 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. Additional information is disclosed in notes 10 and 11.

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. Additional information is disclosed in note 13.

Provision for doubtful accounts receivable. Provision for doubtful debts is charged based on factual data about accounts receivable payment and the solvency analysis of the most significant debtors. In case of worsening the clients' financial position, a factual losses volume may exceed an estimated one. Additional information is disclosed in note 7.
Legal actions. The Group's management applies significant judgments during the estimation and recognition of provisions and risks of contingent liabilities associated with existing legal actions and other unsettled claims that should be settled by way of negotiations, mediation, arbitration or state interference as well as other contingent liabilities. The management's judgment is essential during the possibility of a claim settling as regards the Group or material obligations and during the determination of a possible

amount of final settlement. Due to the uncertainty inherent to the estimation process, actual expenses may differ from the initial estimation of provision. These previous estimations may vary as new information becomes available, mainly, from the Group's specialists, if any, or from outside consultants, such as actuaries or lawyers. A review of these estimations may have a substantial impact on future operating results. Additional information is disclosed in note 30.

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 the 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. This segment generated 38% (2017: 30%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 49% (2017: 52%) of Group's revenue;
- *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 and liabilities 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 year ended 31 December is as follows:

	2018				**2017**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	79,987	40,679	12,084	132,750	87,637	41,178	11,696	140,511
Inter-segment revenue	-	-	(155)	(155)	-	-	(100)	(100)
Revenue from external customers	79,987	40,679	11,929	132,595	87,637	41,178	11,596	140,411
EBITDA	**514**	**1,622**	**(401)**	**1,735**	**6,717**	**3,708**	**(54)**	**10,371**
EBITDA margin	1%	4%	(3%)	1%	8%	9%	0%	7%
Depreciation and amortization	1,610	6,965	1,670	10,245	3,505	5,101	1,755	10,361

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

The segment information by product for the year ended 31 December is as follows:

	2018				2017			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	50,745	64,746	17,259	132,750	42,246	73,248	25,017	140,511
Inter-segment revenue	-	-	(155)	(155)	-	-	(100)	(100)
Revenue from external customers	50,745	64,746	17,104	132,595	42,246	73,248	24,917	140,411
EBITDA	**2,017**	**(740)**	**458**	**1,735**	**3,850**	**5,440**	**1,081**	**10,371**
EBITDA margin	4%	(1%)	3%	1%	9%	7%	4%	7%
Depreciation and amortization	4,853	2,586	2,806	10,245	3,555	4,104	2,702	10,361

A reconciliation of EBITDA to profit before tax:

	2018	2017
EBITDA	1,735	10,371
Other segments EBITDA	377	(92)
Total segments	**2,112**	**10,279**
Depreciation and amortization	(10,245)	(10,361)
Loss from disposal and impairment of non-current assets	(1,989)	670
Finance expenses	(10,274)	(8,960)
Finance income	227	1,130
Loss before tax	**(20,169)**	**(7,242)**

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 years ended 31 December were as follows:

Entities under common control:	2018	2017
Administrative expenses	-	1

The outstanding balances due from related parties as of 31 December were as follows:

	Balance at	Transactions value	Balance at
Entities under common control:	**2018**	**2018**	**2017**
Trade accounts receivable	50	50	-
Other financial assets:	249	(306)	555
Other accounts receivable	1,427	1,374	53
Total trade and other receivable	**1,726**	**1,118**	**608**
Other accounts payable	569	(273)	842
Total trade and other payable	**569**	**(273)**	**842**

Key management compensation

Key management includes Board of Directors. The short-term employee benefits paid or payable to key management for employee services is EUR 170 thousand (2017: EUR 183 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.

	31 December 2018	**31 December 2017**
Short term deposits	-	436
Cash in bank and cash on hand	334	980
Total cash and cash equivalents	**334**	**1,416**

An analysis of the Group's cash and cash equivalents by currency is provided in note 32.

7 Trade and other accounts receivable

	31 December 2018	**31 December 2017**
Trade accounts receivable	10,325	9,757
Other financial assets	10,512	8,247
Allowance for doubtful debts	(10,300)	(8,960)
Total financial assets within trade and other receivables	**10,537**	**9,044**
Advances issued	1,836	1,934
Advances issued for non-current assets	204	11
Other receivables	7,464	9,035
Allowance for doubtful debts	(869)	(618)
Total trade and other accounts receivable	**19,172**	**19,406**

As at 31 December 2018 trade receivables of EUR 3,257 thousand (2017: EUR 3,540 thousand) were past due. Total trade accounts receivable are individually determined and to be impaired in the amount of EUR 10,300 thousand (2017: EUR 8,960 thousand). Based on historic information, that includes past due period and estimated recoverability value, the Group creates the allowance for doubtful debts against trade receivables past due.

The other financial assets include EUR 249 thousand (2017: EUR 555 thousand) due from related parties.

The analysis of credit quality of trade and other financial receivables is as follows:

	31 December 2018		31 December 2017	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Customers with no history of default	7,068	2,306	6,217	8,247
Total current and not impaired	**7,068**	**2,306**	**6,217**	**8,247**
Individually determined to be impaired				
- less than 30 days overdue	713	-	675	-
- 30 to 60 days overdue	47	-	47	-
- 60 to 90 days overdue	14	-	17	-
- 90 to 360 days overdue	67	-	356	-
- over 360 days overdue	2,416	599	2,445	-
Special impairment provision	-	7,607	-	-
Total individually determined to be impaired	**3,257**	**8,206**	**3,540**	-
Less impairment provision	(2,094)	(8,206)	(1,996)	(6,964)
Total	**8,231**	**2,306**	**7,761**	**1,283**

Management have assessed the credit quality of clients which whom the Group have outstanding balances and have come to the conclusion the credit quality is mostly depended on the current economic and political crisis. In cases where credit quality is poor management have made a provision.

According to the National Bank of Ukraine Resolution dated 28 August 2015 № 562 "On revocation of the banking license and liquidation of PJSC" UKRAINIAN PROFESSIONAL BANK "executive directorate of the Deposit Guarantee made a decision № 158 regarding "The beginning of procedure of liquidation JSC" UKRAINIAN PROFESSIONAL BANK".

As at 31 December 2018 Other financial assets include balances previously classified as Deposits in PJSC UKRAINIAN PROFESSIONAL BANK in the amount of EUR 6,767 thousand (2017: EUR 6,964 thousand) for which 100% allowance for doubtful debts was accrued.

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.

Movements on the group provision for impairment of trade receivables are as follows:

	2018	2017
Balance 1 January	**1,996**	**2,221**
Provided by during the year	74	42
Unused amount reversed	-	-
Receivable written off during the year as uncollectible	(33)	-
Exchange difference	57	(267)
Balance 31 December	**2,094**	**1,996**

The movement on the provision for impaired receivables has been included in other expenses, net line in the consolidated statement of comprehensive income.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 32.

The Group does not hold any collateral as security.

8 Inventories

	31 December 2018	31 December 2017
Raw and other materials	4,744	4,970
Finished goods and work in progress	4,919	3,516
Agriculture produce	415	227
Total inventories	**10,078**	**8,713**

At 31 December 2018 bank borrowings are secured on inventories the value of EUR 3,526 thousand (2017: 3,321 thousand) (note16).

As at 31 December 2018 inventories are stated net of provision for obsolescence at the amount of EUR 269 thousand (2017: EUR 389 thousand).

9 Other taxes receivable

	31 December 2018	31 December 2017
VAT recoverable	5,932	4,907
Payroll related taxes	80	92
Other prepaid taxes	105	195
Total other taxes receivable	**6,117**	**5,194**

VAT receivable as at 31 December 2018 is shown net of provision at the amount of EUR 5,932 thousand (31 December 2017: EUR 4,907 thousand).

10 Goodwill

	2018	2017
Balance at 1 January	**1,474**	1,558
Foreign currency translation	(174)	(84)
Balance at 31 December	**1,300**	**1,474**

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.

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Milk production operations – represented by Ostankino Dairy Company located in Russia.
- Agricultural operations – represented by four agricultural companies located in Ukraine that were purchased by the Group during the years ended 31 December 2012 and 2013.

The carrying amount of goodwill was allocated to cash-generating units as follow:

	31 December 2018	31 December 2017
Milk production operations	1,197	1,381
Agricultural operations	103	93
	1,300	**1,474**

Impairment test for goodwill

Impairment testing of goodwill is performed annually.

The recoverable amounts of the cash-generating units are based on value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 31 December 2018.

Management determined budget revenues based on past performance and its expectation of market development. Discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Management expectations and other input to the calculation such as discount rate, market size and market shares reflect the current economic climate and market developments relevant to the segments.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

The outcome of the impairment tests is that the recoverable amounts exceed the carrying amounts of the cash-generating units and accordingly no impairment charge has been recorded in 2018 and in 2017. In addition to the impairment test, the principal assumptions were subject to sensitivity analyses, which led to the conclusion that no impairments would arise from reasonable possible changes in a key assumption.

11 Property, plant and equipment and intangible assets

	Land and Buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
At 1 January 2017						
Revalued cost	74,880	25,873	1,746	8,765	3,363	114,627
Accumulated depreciation and amortization	(4,092)	(7,063)	(1,347)	-	(1,037)	(13,539)
Net book value	**70,788**	**18,810**	**399**	**8,765**	**2,326**	**101,088**
Year ended 31 December 2017						
Opening net book value	**70,788**	**18,810**	**399**	**8,765**	**2,326**	**101,088**
Additions	489	1,361	163	759	183	2,955
Depreciation and amortization	(3,420)	(5,479)	(1,099)	-	(363)	(10,361)
Transfers	8,868	(3,623)	62	(5,307)	-	-
Revaluation	3,747	11,200	6,525	594	-	22,066
Disposals	(1,902)	(2,450)	(80)	(421)	(91)	(4,944)
Exchange rate difference	(8,070)	40	(248)	(792)	(62)	(9,132)
Closing net book value	**70,500**	**19,859**	**5,722**	**3,598**	**1,993**	**101,672**
At 31 December 2017						
Revalued cost	72,874	28,433	5,946	3,598	3,303	114,154
Accumulated depreciation and amortization	(2,374)	(8,574)	(224)	-	(1,310)	(12,482)
Net book value	**70,500**	**19,859**	**5,722**	**3,598**	**1,993**	**101,672**
Year ended 31 December 2018						
Opening net book value	**70,500**	**19,859**	**5,722**	**3,598**	**1,993**	**101,672**
Additions	642	996	129	1,750	19	3,536
Depreciation and amortization	(3,644)	(4,495)	(1,839)	-	(267)	(10,245)
Transfers	121	239	228	(589)	1	-
Revaluation	-	-	-	-	-	-
Disposals	(306)	(859)	(535)	(1,026)	(72)	(2,798)
Exchange rate difference	(991)	120	257	896	(144)	138
Closing net book value	**66,322**	**15,860**	**3,962**	**4,629**	**1,530**	**92,303**
At 31 December 2018						
Revalued cost	72,270	28,144	5,920	4,629	3,083	114,046
Accumulated depreciation and amortization	(5,948)	(12,284)	(1,958)	-	(1,553)	(21,743)
Net book value	**66,322**	**15,860**	**3,962**	**4,629**	**1,530**	**92,303**

Weighted average cost of capital (WACC) for Ukrainian production assets impairment was calculated using the following most significant variables:

- Country risk at the rate of 6.2%
- Equity risk Premium at the rate of 4.1%
- Cost of Debt for Ukrainian Hryvnia at the rate of 16.6%

The calculation resulted with WACC at the level of 18.9%.

At 31 December 2018 bank borrowings are secured on properties for the value of EUR 69,477 thousand (2017: EUR 68,321 thousand) (note16).

At 31 December 2018 bank borrowings are secured on Intangible assets the value of EUR 224 thousand (2017: EUR 211 thousand).

At 31 December 2018 the gross carrying value of fully depreciated property, plant and equipment is EUR 3,878 thousand (2017: EUR 1,123 thousand).

12 Investment property

	Land and buildings	Constructions in progress	Total
Year ended 31 December 2018			
Opening balance value	11,870	4,862	16,732
Net gains or losses from FV adjustments	990	348	1,338
Closing balance value	**12,860**	**5,210**	**18,070**
At 31 December 2018			

	Land and buildings	Constructions in progress	Total
Year ended 31 December 2017			
Opening balance value	13,265	6,706	19,971
Net gains or losses from FV adjustments	(1,395)	(1,844)	(3,239)
Closing balance value	**11,870**	**4,862**	**16,732**
At 31 December 2017			

At 31 December 2018, there were no restrictions on the realization of investment property or the remittance of income and proceeds of disposal (2017: none).

There are no contractual obligations to purchase, construct or develop investment property for repairs, maintenance or enhancements on responding year.
The investment property was passed through appraisal on 31 December 2018 (2017: on 31 December 2017) using multiple appraisal methods, including cost and income based approaches, carried out by external independent qualified appraisal companies with recent professional experience in the locations of the Group business.

The fair value of the investment property has not been adjusted significantly for the purposes of financial reporting. The fair value of investment property is categorized as a level 3 recurring fair value measurement.

13 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 and winter wheat, with the main purpose to sale to the external customers
- Grow fodder cultures.

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.
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.

Fair values of biological assets were based on the following key assumptions:

- crops are accounted on historical costs. As for now the Company restores plant growing for fodder with growth cycle about 5 years;
- Dairy cattle are accounted on the minimum amount of
  1) projected discounted cash flows based on the expected milk produced during their productive life after the reporting date and expected volume of meat at the date of slaughter;
  2) actual market price updated quarterly for the same biological assets;
- the average productive life of a cow is determined based on internal statistical information and stated as 8 years for milk producing forecast purposes;
- comparative prices for milk and meat are obtained from market resources as at the end of the reporting period;
- pre-tax discount rate of 14% is applied in determining fair value of biological assets. The discount rate was applied given the discount rate stated by the NBU effective at the reporting date.

The key assumptions represent management's assessment of future trends in agriculture and cattle farming business and are based on both external and internal sources of data.

As at 31 December biological assets comprise the following groups:

	31 December 2018		31 December 2017	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	2,955	1,343	2,499	1,127
Other	-	-	-	1
	2,955	**1,343**	**2,499**	**1,128**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Other	-	-	-	174
	-	**-**	**-**	**174**
Total current biological assets	**-**	**1,343**	**-**	**1,302**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	1,888	1,937	1,676	1,251
Other livestock	7	1	-	-
	1,895	**1,938**	**1,676**	**1,251**

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2018 and 2017:

	2018	2017
1 % increase in discount rate	1	3
1 % decrease in discount rate	(1)	(3)
10 % increase in price for milk	(3)	-
10 % decrease in price for milk	21	1
10 % decrease (increase) in price for meat	(136)	(114)
10 % increase (decrease) in price for meat	124	104

Law elasticity on milk price changes is due to the fact that most of the cows are accounted at the market price as the less amount comparatively to discounted cash flows (DCF) of expected milk and meat sales revenue.

The following represents the changes during the year ended 31 December 2018 and 31 December 2017 in the carrying amounts of non-current and current biological assets:

	Current biological assets of animal breading	Current biological assets of plant growing	Non-current biological assets
As at 1 January 2017	**960**	**136**	**1,383**
Purchases	235	-	-
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	317	-	154
Investments into future crops	-	235	-
Transfers	(390)	-	390
Decrease due to harvest	-	(197)	-
Disposals	(274)	-	(461)
Currency translation difference	280	-	(215)
As at 31 December 2017	**1,128**	**174**	**1,251**
Purchases	101	-	-
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	1,254	-	445
Investments into future crops	-	-	-
Transfers	(692)	-	692
Decrease due to harvest	-	(174)	-
Disposals	(375)	-	(368)
Currency translation difference	(73)	-	(82)
As at 31 December 2018	**1,343**	**-**	**1,938**

Risk management in agricultural business

The Group is exposed to a number of risks related to its biological assets:

Price fluctuation risk

The Group is exposed to financial risks arising from changes in wheat, barley and milk prices. The Group does not anticipate that prices for its main products will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in prices. Management reviews its outlook for prices regularly in considering the need for active financial risk management.

Climate and other risks

Biological assets are exposed to the risk of damage from climatic changes, diseases, fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular field and farm inspections and industry pest and disease surveys.

14 Trade and other payables

	31 December 2018	31 December 2017
Trade payables	17,129	14,872
Accounts payable for fixed assets	42	23
Interest payable	20,301	14,340
Other financial payables	-	-
Total financial liabilities within trade and other payable	**37,472**	**29,235**
Wages and salaries payable	1,824	1,445
Advances received	3,858	1,048
Other accounts payable	9,865	8,176
Accruals for employees’ unused vacations	952	874
Total trade and other payables	**53,971**	**40,778**

Financial liabilities are normally settled within 60-days period.

The fair values of trade and other accounts payable approximate their carrying amounts.

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 32.

15 Other taxes payable

	31 December 2018	31 December 2017
VAT payable	130	1,102
Payroll related taxes	3,414	3,137
Other taxes payable	1,527	1,235
Total other taxes payable	**5,071**	**5,474**

16 Interest bearing loans and borrowings

	31 December 2018	31 December 2017
Current		
Interest bearing loans due to banks	81,843	74,012
Loans from non-financial institutions	-	1
Bank overdrafts	12	9
Finance leases	1,570	1,778
Total current borrowings	**83,425**	**75,800**
Non-current		
Interest bearing loans due to banks	2,497	10,632
Finance leases	33	124
Total non-current borrowings	**2,530**	**10,756**
Total borrowings	**85,955**	**86,556**

At 31 December 2018 current borrowings of the Group stood at EUR 83.4 million. Out of this amount, bank loans in the amount of EUR 1,321 thousand (2017: EUR 1,694 thousand) are classified as a short-term as a part of the indebtedness of the Group under long-term credit lines from several banks, which is due in 2018.

As at 31 December 2018, the Group has not met requirement in respect of covenants to syndicate loan stated in Note 31. Management is in process of loan restructuring negotiation with lenders as at the date of these financial statements approval. The total sum of the Group's indebtedness to syndicate as at 31 December 2018 stood at EUR 51,162 thousand, including an overdue amount of EUR 51,162 thousand is classified as current interest bearing loans due to banks (note 16).

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at 31 December are as follows:

	2018	2017
6 months or less	72,515	63,273
6-12 months	10,910	12,527
1-3 years	1,740	9,380
3-5 years	790	1,376
	85,955	**86,556**

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 31 December are as follows:

	31 December 2018					31 December 2017				
	USD	**UAH**	**RUB**	**PLN**	**Total**	**USD**	**UAH**	**RUB**	**PLN**	**Total**
12 months or less										
Outstanding balance, thousand EUR	58,999	9,414	12,552	2,460	**83,425**	50,133	8,636	13,950	3,081	**75,800**
Average interest rate, %	9.54	3.44	15.23	1.67	**9.47**	9.53	1.30	15.32	1.94	**9.35**
1-5 years										
Outstanding balance, thousand EUR	2,370	-	160	-	**2,530**	8,920	550	1,286	-	**10,756**
Average interest rate, %	3.00	-	11.21	-	**3.52**	3.00	19.50	12.87	-	**5.02**

At 31 December 2018 bank borrowings are secured on properties, plant and equipment (note 11), inventories (note 8).

At 31 December 2018, due to the difficult economic and political situation in Ukraine (note 1), the Group has overdue amount of EUR 51,162 thousand in respect of Facilities agreement with the Syndicate. Management is in process of negotiation of new repayment terms for the above mentioned and other loans (note 35).

Milkiland EU (as a guarantor for the leasing contracts of Ostrowia) and Pekao Leasing signed the prolongation agreement regarding the original contracts term prolongation till 31 December 18. As of today, the Group is in negotiations with this Creditor in order to agree about the restructuring of this indebtedness until 31 December 2019. Four production equipment objects are leased according to the original leasing contracts 37/0869/13, 37/0922/13, 37/0935/13, 37/0936/13. The total amount of the respective debt under the leasing contracts stood at EUR 1.5 million as of 31 December 2018.

First of all payments of the guarantor will cover the liability under the leasing agreement No. 37/0869/13 and further on the longest liabilities. In case Guarantor breaks any obligation under compromise agreement including delay at least one payment or its part exceeding 7 days, the Creditor may restart the enforcement process in court without additional notices and calls. The terms and conditions of further prolongation of leasing contracts should be discussed and agreed between Pekao Leasing and Debtor until 31 December 2019. Any special restrictions concerning dividends payment, additional debt obtaining and further leasing operations are applicable according to the signed prolongation agreement dated 16 November 2016 and other possible further restructuring agreements between the Parties.

17 Share capital

Share capital as at 31 December is as follows:

	31 December 2018		31 December 2017	
	Number	EUR 000	Number	EUR 000
Authorized				
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 beginning of the year	31,250,000	3,125	31,250,000	3,125
At end of the year	**31,250,000**	**3,125**	**31,250,000**	**3,125**

18 Revaluation reserve

The revaluation reserve arises on the revaluation of properties, plant and equipment. When revalued properties, plant and equipment are depreciated or sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings. During 2018 EUR 4,169 thousand was transferred to retained earnings (2017: EUR 7,109 thousand).

19 Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group`s foreign operations from their functional currencies to Group`s presentation currency are recognized directly in other comprehensive income and accumulated in the currency translation reserve.

20 Dividends per share

During the year ended 31 December 2018 the Group had not declared dividends. Last payment of dividends was made by the Group in 2014, the respective amount of payment stood at EUR 2,187 thousand (EUR 0.08 per ordinary share).

21 Revenue

Sales by product during the year ended 31 December was as follows:

	2018	2017
Cheese & Butter	50,745	42,247
Whole-milk products	64,746	73,248
Ingredients	17,104	24,916
Total revenue	**132,595**	**140,411**

Regional sales during the year ended 31 December was as follows:

	2018	2017
Russia	79,986	87,567
Ukraine (including export)	39,302	40,352
Poland	12,079	11,466
Other	1,228	1,026
Total revenue	**132,595**	**140,411**

22 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR 111 thousand represents the revaluation of cattle at fair value less costs to sell. In 2017 change in fair value of biological assets at the amount of EUR 269 thousand was included in the cost of sales item without a separate presentation in the consolidated income statement.

23 Cost of sales

	2018	2017
Raw and other materials	81,042	88,307
Depreciation	8,091	8,404
Wages and salaries	7,408	6,668
Gas	3,868	3,005
Electricity	3,321	3,005
Transportation costs	3,069	2,359
Social insurance contributions	1,744	1,544
Repairs of property, plant and equipment	993	914
Water	173	189
Changes in finished goods and work in progress	(168)	(206)
Other	3,659	2,530
Total cost of sales	**113,200**	**116,719**

24 Selling and distribution expenses

	2018	2017
Transportation costs	5,955	5,639
Wages and salaries	2,692	2,903
Security and other services	700	436
Social insurance contributions	582	715
Marketing and advertising	574	69
Depreciation and amortization	199	440
License fees	19	24
Rental costs	1	4
Other	749	1,342
Total selling expenses	**11,471**	**11,572**

25 Administrative expenses

	2018	2017
Wages and salaries	4,716	4,585
Consulting fees	1,956	1,332
Taxes and other charges	1,448	1,526
Social insurance contributions	850	1,337
Depreciation and amortization	684	591
Transportation costs	428	458
Security and other services	412	548
Rental costs	329	214
Repairs and maintenance	268	190
Other utilities	192	141
Bank charges	149	157
Communication	111	125
Representative charges	93	180
Property insurance	27	31
Office supplies	22	26
Other	1,106	763
Total administrative expenses	**12,791**	**12,204**

26 Other income/(expenses), net

	2018	2017
Operational foreign exchange results, net	431	233
Gain/(Loss) from disposal of non-current assets	(364)	1,800
Rental income	167	561
Change in provision and write off of VAT receivable	63	(131)
Gain from write off of accounts payable	13	2
Government grants recognized as income	-	52
Loss from disposal and write off of inventories	(448)	(175)
Penalties	(695)	(478)
Change in provision and write off of trade and other accounts receivable	(1,016)	(87)
Depreciation	(1,271)	(926)
Loss from revaluation of non-current assets	(1,625)	(1,130)
Other income/(expenses)	(621)	951
Total other (expenses)/income, net	**(5,366)**	**672**

27 Finance income

	2018	2017
Bank deposits	26	50
Finance foreign exchange income, net	14	1,080
Other finance income	187	-
Total finance income	**227**	**1,130**

28 Finance expenses

	2018	2017
Bank borrowings	6,106	6,785
Finance foreign exchange expenses, net	3,056	(665)
Other borrowings	659	182
Discounting of loans	422	2609
Finance leases	31	49
Other finance expense	-	-
Total finance expenses	**10,274**	**8,960**

29 Income tax

	2018	2017
Current income tax expense	(458)	(777)
Deferred income tax benefit	542	673
Income tax expense	**84**	**(104)**

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.

Reconciliation between the expected and the actual taxation charge is provided below.

	2018	2017
Profit/ (Loss) before taxation, including	**(20,169)**	**(7,242)**
Profit/ (Loss) of companies levied a single agricultural tax (Ukrainian operations)	291	(147)
Profit/ (Loss) of Ukrainian companies	(7,723)	451
Profit/ (Loss) of Russian companies	(1,343)	(673)
Profit/ (Loss) of Poland companies	(2,937)	(2,066)
Profit/ (Loss) of Dutch companies	1,527	233
Profit/ (Loss) of Cyprus companies	(7,104)	(4,005)
Profit/ (Loss) before income tax of other companies	(2,880)	(1,035)
Declaration of dividends within the Group	-	-
Income tax charge at statutory rate of 18% (Ukrainian operations)	1,390	(81)
Income tax charge at statutory rate of 20% (Russian operations)	269	135
Income tax charge at statutory rate of 19% (Poland operations)	558	393
Income tax charge at statutory rate of 25% (Dutch operations)	(382)	(58)
Income tax charge at statutory rate of 12.5% (Cyprus operations)	888	501
Change in deferred income taxes resulting from reduction in tax rate	-	-
Provision in respect of irrecoverable deferred income tax asset	547	3,807
Tax effect of items which are permanently not deductible or assessable for taxation purposes	(3,186)	(4,801)
Income tax expense	**84**	**(104)**

At the existing Group's structure tax losses and current tax assets of one company cannot be offset against current income tax liabilities of another company. Correspondently, taxes may be accrued even if there is a net consolidated tax loss. Thus, deferred income tax assets of one company of the Group are not subject to offsetting against deferred income tax liabilities of another company of the Group. The deferred income tax liabilities and assets reflected in the consolidated statement of financial position as at 31 December are as follows:

	2018	2017
Deferred income tax liability	(11,054)	(13,760)
Deferred income tax asset	70	2,472
	(10,984)	(11,288)

Unrecognized deductible temporary differences, unused tax losses and unused tax credits.
As at 31 December 2018 Milkiland EU Sp. z o.o. has written off deferred tax assets in the amount of 2,740 thousand EUR. This amount was mostly presented by the tax losses from the prior periods. The company had a history of tax losses and the calculated deferred tax asset, net of deferred tax liabilities were mainly a result of prior period losses. Deferred tax assets write-off transaction was due to the five-year period of using the negative financial result of previous years.
The deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the statement of financial position presented below:

	2018	2017
Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:		
- Tax losses (revenue in nature)	2,499	2,876
- Tax losses (capital in nature)		-
- Unused tax credit		-
- Deductible temporary differences		-
Total	2,499	**2,876**

Differences between IFRS and the national tax legislations result in temporary differences between the carrying amount of assets and liabilities with the purpose to prepare financial statements and a tax basis for the income tax calculation. The following tables summarize the components of temporary differences that give rise to deferred income tax assets and liabilities:

	1 January 2018	Deferred income tax income or expense recognized in profit or loss	Deferred income tax expense recognized in other comprehensive income	Tax effect in revaluation of PPE	31 December 2018
Recognized deferred income tax assets attributable to the following elements:					
Trade and other receivables	631	219	32	(1)	881
Inventories	123	(67)	4	(1)	59
Advances paid and prepaid expenses	-	(3)	-	(18)	(21)
Property, plant and equipment	96	(82)	6	-	20
Intangible assets	-	2	-	1	3
Trade and other payables	715	(521)	520	-	714
Advances received	-	8	-	(2)	6
Tax losses carried forward	5,668	(125)	138	(1)	5,680
Less accrued provision	(2,876)	(2,193)	(171)	-	(5,240)
Deferred income	11	-	-	-	11
Other	(44)	-	-	-	(44)
Netting with deferred income tax liabilities	(1,852)	(25)	(143)	21	(1,999)
Deferred income tax assets	**2,472**	**(2,787)**	**386**	**(1)**	**70**
Recognized deferred income tax liabilities attributable to the following elements:					
Trade and other receivables	(1,771)	318	9	-	(1,444)
Advances paid and prepaid expenses	(654)	-	(57)	-	(711)
Property, plant and equipment	(13,114)	2,704	(428)	363	(10,475)
Netting with deferred income tax assets	1,779	(194)	(10)	1	1,576
Deferred income tax liabilities	**(13,760)**	**2,828**	**(486)**	**364**	**(11,054)**
Total deferred income tax assets and liabilities	**(11,288)**	**41**	**(100)**	**363**	**(10,984)**

Comparative information for 2017:

	1 January 2017	Deferred income tax income or expense recognized in profit or loss	Deferred income tax income or expense recognized in other comprehensive income	Tax effect in revaluation of PPE	31 December 2017
Recognized deferred income tax assets attributable to the following elements:					
Trade and other receivables	2,568	(1,767)	(170)	-	631
Inventories	107	23	(7)	-	123
Property, plant and equipment	23	86	(13)	-	96
Trade and other payables	1,216	(631)	130	-	715
Advances received	(3)		3		
Tax losses carried forward	9,572	(3,386)	(518)	-	5,668
Less accrued provision	(7,370)	3,809	685	-	(2,876)
Deferred income	16	-	(5)	-	11
Other	(27)	-	(17)	-	(44)
Netting with deferred income tax liabilities	(3,879)	1,996	31	-	(1,852)
Deferred income tax assets	**2,223**	**130**	**119**	**-**	**2,472**
Recognized deferred income tax liabilities attributable to the following elements:					
Trade and other receivables	(2,908)	986	151	-	(1,771)
Advances paid and prepaid expenses	(597)	-	(57)	-	(654)
Property, plant and equipment	(12,144)	1,794	749	(3,513)	(13,114)
Netting with deferred income tax assets	3,878	(1,876)	(223)	-	1,779
Deferred income tax liabilities	**(11,771)**	**904**	**620**	**(3,513)**	**(13,760)**
Total deferred income tax assets and liabilities	**(9,548)**	**1,034**	**739**	**(3,513)**	**(11,288)**

Management assesses whether valuation allowances should be established against deferred tax assets based on consideration of all available evidence, both positive and negative. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward periods, the experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified. The Company’s ability to realize deferred income tax assets depends on the ability to generate sufficient taxable income within the carry back or carry forward periods provided for in the tax law for each applicable tax jurisdiction.

As at 31 December 2018 deferred income tax assets are shown before provision for irrecoverable deferred income tax assets at the amount of EUR 2,569 thousand (2017: EUR 5,348 thousand).

30 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.

The legal proceedings of the Group have a negative increase tendency. During the last year the total credit indebtedness which should be collected from the companies of the Group was increased from EUR 1,071 thousand as 31 December 2017 to EUR 2,947 thousand as of 31 December 2018.

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.

The changes include, *inter alia,* the article 54.1 of Russian Tax Code with increasing attention and requirements to subcontractors relations in terms both of VAT and Profit tax calculations. Still there are no legal cases of applying the new approach to business.

These changes may create tax risks for the business in the Russian Federation.

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.

31 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.

Capital structure of the Group as of 31 December:

	2018	2017
Total borrowings	85,955	86,556
Less: cash and cash equivalents	(334)	(1,416)
Net debt	**85,621**	**85,140**
Total equity	(5,204)	12,922
Total capital	**80,417**	**98,062**

32 Financial risk management

The Company's activities expose it to a variety of financial risks, including foreign exchange, interest rate risks and also market, credit and liquidity risks. The overall risks management program focuses on the minimizing of the potential unfavorable influence of the different kind of risks to the Group's business and operations.

Market risk
The Group is exposed to market risks, including the volatility of the global commodity markets, as well as local raw materials markets. Milkiland's management is constantly seeking for the opportunities of establishment of long-term relations with the clients and suppliers in order to mitigate those risks.

Foreign exchange risk
Foreign currency risk is a risk of losses resulting from adverse movements in different currency exchange rates against the Group's reporting currency, namely EUR. Foreign currency risk arises from potential future commercial transactions in foreign currencies, and recognition of assets and liabilities denominated in a currencies, other than reporting currency of the Company.

The Group primary exposure to foreign currency risk is related to borrowings, the majority of which are denominated in US dollars, while the lion's share of the Groups revenues come in RUB and UAH. The Group's management made several steps in order to mitigate this risk, including by partial transfer of the indebtedness previously denominated in US Dollars to UAH.

As of 31 December 2018 the Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR	USD	RUB	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	492	5,577	4,264	204	10,537
Cash and cash equivalents	2	3	29	239	61	334
Total financial assets	**2**	**495**	**5,606**	**4,503**	**265**	**10,871**
Financial Liabilities						
Loans and borrowings	12	60,577	12,710	10,196	2,460	85,955
Financial payables within trade and other payables	7	18,640	10,780	6,219	1,826	37,472
Total financial liabilities	**19**	**79,217**	**23,490**	**16,415**	**4,286**	**123,427**

Comparative information for 2017:

	EUR	USD	RUB	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	349	4,154	4,163	378	9,044
Cash and cash equivalents	16	58	706	573	63	1,416
Total financial assets	**16**	**407**	**4,860**	**4,736**	**441**	**10,460**
Financial Liabilities						
Loans and borrowings	8	58,580	15,236	9,651	3,081	86,556
Financial payables within trade and other payables	4	14,783	13,182	7,462	1,980	37,411
Total financial liabilities	**12**	**73,363**	**28,418**	**17,113**	**5,061**	**123,967**

The following table presents sensitivities of post-tax profit for the year to reasonably possible changes in exchange rates applied at the statement of financial position date relative to the functional currency of the respective Group entities, with all other variables held constant:

	2018	2017
USD strengthening by 10% (2017: 10%)	(749)	(934)
USD weakening by 10% (2017: 10%)	749	934
Euro strengthening by 10% (2017: 10%)	-	1
Euro weakening by 10% (2017: 10%)	-	(1)
PLN strengthening by 10% (2017: 10%)	4	4
PLN weakening by 10% (2017: 10%)	(4)	(4)
UAH strengthening by 10% (2017: 10%)	19	12
UAH weakening by 10% (2017: 10%)	(19)	(12)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Company may occur if counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents and credit exposures to accounts receivable. The Company does not have derivative financial assets and available-for-sale investments.

Cash and cash equivalents. Cash and cash equivalents are placed in major multinational, Ukrainian, Russian and Polish banks. Analysis by credit quality of bank balances is as follows:

	2018	2017
Ratings by Moody's		
Baa1	11	-
Baa3	6	-
Ba1	1	-
Ba2	-	8
B2	70	677
B3	66	-
Caa1	20	29
Caa2	-	10
Unrated	128	650
Cash on hand	32	42
Total cash and cash equivalents	**334**	**1,416**

Trade and other financial receivables. The monitoring and controlling of credit risk is performed by sales department and analyst department of the Company. The credit quality of each new customer is evaluated before the Company provides it with the standard terms of supply, including credit limit and payment delay. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. Customers that do not meet the credit quality requirements are supplied on a prepayment basis only. The Company controls following the credit limits of all existing customers as well as timely settlement of trade and other accounts receivable (note 7). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers' default risk.

Trade and other accounts receivable are mainly represented by receivables from customers, which are not aiming to obtain the credit rating in their operating activity.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 7.

	31 December 2018		**31 December 2017**	
Financial assets	**Carrying value**	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Cash and cash equivalents	334	334	1,416	1,416
Trade and other receivables	10,537	10,537	9,044	9,044
	10,871	**10,871**	**10,460**	**10,460**

Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has no significant interest-bearing assets.

Interest rate risk arises from movements in interest rates which could affect the Company's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is carried out by the corporate finance department.

Monitoring of current market interest and analysis of the Group's interest-bearing position is performed as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

At the end of 2018 the Group had approximately 39% (2017: 40%) of its borrowings in fixed rate instruments and 61% (2017: 60%) in variable rate instruments.

Liquidity risk

Liquidity risk is a risk, when the Group is not able to pay all liabilities after maturity date. The Group manages and controls over the liquidity. The Group uses procedures for preparation of budget and forecasting cash flows that provides availability of necessary funds for fulfillment its payment liabilities. Based on the estimated cash flows a decision is made to invest cash funds or attract financing, if necessary. Performance of the credit risk policy management gives the Group sufficient cash to repay its debts on time.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, which approximate their fair value:

	Up to 6 months	**6-12 months**	**1 - 3 years**	**3 - 5 years**
Trade and other accounts payable (note 14)	37,472	-	-	-
Borrowings	72,515	10,910	1,740	790
Total	**109,987**	**10,910**	**1,740**	**790**

Comparative information at 31 December 2017 is as follows:

	Up to 6 months	**6-12 months**	**1 - 3 years**	**3 - 5 years**
Trade and other accounts payable (note 14)	29,235	-	-	-
Borrowings	63,273	12,527	9,380	1,376
Total	**92,508**	**12,527**	**9,380**	**1,376**

Financial instruments carried at fair value. The Group does not have available-for-sale investments. Cash and cash equivalents are carried at amortized cost which approximates current fair value.

Financial assets at amortized cost. An estimated fair value of instruments at fixed interest rate is based upon the method of discounted estimated future cash flows applying interest rates effective at the borrowed funds market for new instruments that provide for the same credit risk and the same maturity term. Discount rates depend on the credit risk from a contractor. The carrying amount of buyers and customers' accounts receivable equals to their fair value.

Financial liabilities at amortized cost. Fair value is evaluated based upon market quotations, if any. An estimated fair value of instruments with fixed interest rate and defined maturity date that do not have market quotation, is based on the discounting estimated cash flows applying interest rates for new instruments with the same credit risk and defined maturity date. The carrying amount of financial liabilities equals to their fair value.

33 Earnings per share

	2018	2017
Numerator		
Earnings used in basic and diluted EPS	(20,032)	(7,672)
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	31,250
Earning per share, EUR	(0.64)	(0.25)

34 Audit fees

The fees listed below relate to the procedures applied to the company and its consolidated group entities by Accon avm controlepraktijk B.V., the Netherlands, the external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act, as well as by other Dutch and foreign-based individual partnerships and legal entities, including their tax services and advisory groups. Remuneration for audit services of the financial statements 2018.

Information for 2018, EUR thousand:

	Accon avm	Erfolg und Genau	Ground Frost Euroin Audyt	Total
Charged to administrative expenses				
Audit annual accounts	65	80	12	**157**
Total	**65**	**80**	**12**	**157**

Remuneration for audit services of the financial statements 2017.

Information for 2017, EUR thousand:

	Accon avm	Erfolg und Genau/ Ground Frost Euroin Audyt	Total
Charged to administrative expenses			
Audit annual accounts	100	106	**206**
Total	**100**	**106**	**206**

35 Subsequent events

Restructuring of the Group's indebtedness

Since the beginning of 2014 the Group has been continuing the negotiations with a main creditors of Milkiland, namely UniCredit Bank Austria AG and ZAO Raiffeisenbank, aimed at signing of long-term Restructuring agreement of debt under Syndicated Loan Facility Agreement provided by those banks.

Accept that, Milkiland has a conformation of engagement with Alvarez and Marshal Capital LLC including the scope of services: A&M shall provide consulting and advisory to the Company in connection with their efforts in seeking to the restructure its Syndicated Loan Facility.

In March 2019 Milkiland has published the official information regarding the assignment of the indebtedness in the sum of USD 29.29 million under Facility Agreement to a New Lender, namely Swestal Holding ltd. The Group's management plans to continue the negotiations on the restructuring of the indebtedness with the New Lender and hopes to achieve the progress on this issue in the near future.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018 /Milkiland N.V./

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Current Assets			
Cash and cash equivalents		49	78
Amounts due from group companies	5	86,046	76,849
Other receivables and prepayments	5	36	63
Other taxes receivable	5	-	5
		86,131	**76,995**
Fixed assets			
Goodwill	3	1,197	1,381
Investments in subsidiaries	4	243	17,544
		1,440	**18,925**
TOTAL ASSETS		**87,571**	**95,920**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	22,064	22,457
Loans and borrowings	8	51,162	48,845
Other payables	7	18,627	12,926
Other taxes payables		1	-
		91,854	**84,228**
Non-Current Liabilities			
Loans and borrowings		-	-
		-	**-**
TOTAL LIABILITIES		**91,854**	**84,228**
Shareholder's equity			
Issued and paid-up share capital	6	3,125	3,125
Share premium	6	48,687	48,687
Revaluation reserve	6	75,220	79,403
Currency translation reserve	6	(36,126)	(38,042)
Retained earnings and inappropriate result	6	(95,189)	(81,481)
Total equity		**(4,283)**	**11,692**
TOTAL LIABILITIES AND EQUITY		**87,571**	**95,920**

(All amounts in euro thousands unless otherwise stated)

	Notes	2018	2017
Revenue from Group companies		1,617	1,132
Administrative expenses	9	(926)	(1,083)
Other expenses		-	-
Operating loss		**691**	**49**
Finance income	10	5,834	5,429
Finance expenses	11	(4,998)	(5,245)
Dividends from subsidiaries		-	-
Profit / (loss) before income tax		**1,527**	**233**
Income tax		-	-
Share of profit of participating interests, after income tax		(21,560)	(7,905)
(Loss) / profit for the year		**(20,033)**	**(7,672)**

Notes to the company financial statements

1. General

Reporting entity Milkiland N.V. (the “Company”) was incorporated on 13 July 2007. It changed its Articles of Association on 23 May 2008 amending its legal form to public limited liability company. The financial statements of the Company are included in the consolidated statements of Milkiland N.V. Chamber of Commerce number 34278769.

2. Significant accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e., only IFRS that is adopted for use in the EU at the date of authorization) as explained further in the notes to the consolidated financial statements.

Foreign currency

Assets and liabilities in foreign currencies are translated at the official rates of exchange ruling on statement of financial position dates. Transactions in foreign currencies are translated at the applicable exchange rate on the transaction dates. The resulting exchange differences are accounted for in the statement of comprehensive income.

The financial statements of the foreign subsidiaries are translated at the rates of exchange prevailing at the end of the accounting periods. Differences resulting from the translation of assets and liabilities of the group of companies at the rates prevailing at the beginning and at the end of the year are shown as a separate item in shareholders' equity.

Financial fixed assets

Subsidiaries and other participating interests in which significant influence may be exerted are stated at net asset value, using the equity method. The net asset value is calculated on the basis of the accounting policies included in these financial statements. Participating interests whose figures cannot be brought in line with these policies due to insufficient information, are valued based on the financial statements of the participating interest involved. Participating interests with a net asset value of less than nil are carried at nil. If the investing company is liable for the participating interest's debts, a provision will be formed.

Receivables

Accounts receivable are shown after deduction of a provision for bad and doubtful debts where appropriate.

The accounts receivable have a maturity date due within one year.

Cash and cash equivalents

Cash and bank balances are freely disposable, unless stated otherwise.

Current liabilities

The short term liabilities are due within one year.

Bank borrowings
Bank borrowings are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Profit of participating interests. The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are not recognized.

3. Goodwill

The goodwill of EUR 1,197 thousand (2017: EUR 1,381 thousand) is a result of a subsidiary acquisition and recognized as an asset. Goodwill is initially recognized as an asset during the primary evaluation. Impairment testing is performed annually.

For details see note 10 in consolidated financial statements.

4. Investments in participating interests

	31 December 2018	31 December 2017
JSC Ostankino Dairy, Russia	24,600	30,682
LLC Milkiland Ukraine, Ukraine	3,607	1,755
LLC Milkiland RU, Russia	2,629	2,972
LLC Milkiland N.V, Ukraine	(2,109)	(1,799)
Milkiland Intermarket (CY) LTD, Cyprus	(2,478)	(2,477)
MLK Finance Limited, Cyprus	(15,054)	(7,867)
Milkiland EU sp. z.o.o., Poland	(10,953)	(5,722)
Total investments in participating interests	**243**	**17,544**

Movement during the year is the following:

	2018	2017
At 1 January	17,544	11,774
Profit for the year	(21,560)	(7,905)
Currency translation differences	4,259	(3,630)
Acquisition of minority shares in Ostankino Dairy, Russia	-	-
Dividends declared by subsidiaries	-	-
Revaluation of PPE	-	17,305
Investments into subsidiaries	-	-
At 31 December	**243**	**17,544**

For the period from 1 January 2018 to 31 December 2018 the Company had the following direct subsidiaries:

		Share of ownership	
Name	**Country of incorporation**	**31 December 2018**	**31 December 2017**
MLK Finance Limited	Cyprus	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%
JSC Ostankino Dairy	Russia	100.0%	100.0%
LLC Milkiland RU	Russia	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%
LLC Milkiland Ukraine	Ukraine	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%
LLC Milkiland Agro	Ukraine	99.0%	99.0%

5. Receivables

	31 December 2018	31 December 2017
Amounts due from group companies		
MLK Finance Limited	71,735	63,508
Milkiland EU sp. z.o.o.	13,167	12,266
LLC Uspih-Mena-Plus	674	676
JSC Ostankino Dairy, Russia	288	288
Milkiland Intermarket (CY) LTD	115	110
LLC Milkiland RU, Russia	67	1
Total amounts due from group companies	**86,046**	**76,849**
Other receivables and prepayments		
Advances issued	31	64
Other receivables	45	39
Allowance for doubtful debts	(40)	(40)
Total other receivables and prepayments	**36**	**63**
Taxes and social security		
Payroll related taxes	-	5
Total taxes receivable	**-**	**5**

At 31 December 2018 accounts receivable from MLK Finance Limited represented by EUR 52,832 thousand (2017: EUR 50,442 thousand) of loan issued to this company in October 2012 through transferring of loans previously issued to Ukrainian subsidiaries of the Group and accumulative accrued interests of EUR 18,903 thousand (2017: EUR 13,066 thousand).

6. Shareholder's equity

The authorized share capital of the company amounts to EUR 5,000,000 consisting of 50,000,000 ordinary shares with a nominal value of EUR 0.10 each.

Movements in equity during the year may be specified as follows:

	Issued and paid-up share capital	Share premium	Currency translation reserve	Revaluation reserve	Retained earnings and unappropriated result	Total
Balance as at 1 January 2017	**3,125**	**48,687**	**(34,297)**	**69,208**	**(80,918)**	**5,805**
Total comprehensive income for the year	-	-	(3,745)	17,304	(7,672)	5,887
Realised revaluation reserve, net of income tax	-	-	-	(7,109)	7,109	-
Balance as at 31 December 2017	**3,125**	**48,687**	**(38,042)**	**79,403**	**(81,481)**	**11,692**
Total comprehensive income for the year	-	-	1,916	(14)	(17,877)	(15,975)
Realised revaluation reserve, net of income tax	-	-	-	(4,169)	4,169	-
Balance as at 31 December 2018	**3,125**	**48,687**	**(36,126)**	**75,220**	**(95,189)**	**(4,283)**

7. Trade and other payables

	31 December 2018	31 December 2017
Amounts due to Group companies		
Milkiland Corporation	22,057	22,451
LLC Milkiland N.V	7	6
Total amounts due to Group companies	**22,064**	**22,457**
Other payables		
Other accounts payable	142	163
Trade payables	-	-
Interest payable	18,196	12,466
Wages and salaries payable	289	297
Total other payables	**18,627**	**12,926**
Other taxes payable		
Payroll related taxes	1	-
Total taxes payable	**1**	**-**

Accounts payable to Milkiland Corporation include a financial aid from Milkiland Corporation at the amount of EUR 22,057 thousand (2017: EUR 22,451 thousand). This financial aid to Milkiland Corporation is free of interest rates.

8. Loans and borrowings

Since the beginning of 2018 the Group has been continuing the negotiations with a main creditors of Milkiland, namely UniCredit Bank Austria AG and ZAO Raiffeisenbank, aimed at signing of long-term Restructuring agreement of debt under Syndicated Loan Facility Agreement provided by those banks.

The total sum of the Group's indebtedness to syndicate as at 31 December 2018 stood at USD 58,580 thousand, all amount due.

9. Administrative expenses

	2018	2017
Consultancy fee	285	61
Wages and salaries	268	497
Tax advisory and audit fee	34	405
Other expenses	339	120
Total administrative expenses	**926**	**1,083**

Audit fees are disclosed in note 34 to consolidated financial statements.

10. Finance income

	2018	2017
MLK Finance Limited	5,076	4,750
Milkiland EU sp. z.o.o.	676	679
Foreign exchange income, net - finance	82	
Total finance income	**5,834**	**5,429**

11. Finance expenses

	2018	2017
Bank borrowings	4,998	4,822
Finance foreign exchange loss, net	-	423
Total finance expenses	**4,998**	**5,245**

12. Remuneration of Board of Directors members

Remuneration of Board of Directors members is disclosed in Note 5 and Corporate Governance Report included in Annual report.

Board of Directors of Milkiland N.V.

Amsterdam, 30 April 2019

A. Yurkevych	**O. Yurkevich**	**O. Rozhko**
V. Rekov	**W.S. van Walt Meijer**	**G.C. Logusch**
P. Sheremeta		

OTHER INFORMATION /Milkiland N.V./

Other information

The Board of Directors is charged with the management of the Company, subject to the restrictions contained in these Articles of Association. The board of directors may entrust the executive directors with the operational management of the company and the business enterprise connected therewith. Furthermore, the board of directors may entrust the executive directors with the preparation of the decision making process of the board of directors and the implementation of the decisions taken by the board of directors. The executive directors shall determine which duties regarding the operational management of the company and the business enterprises connected therewith will be carried out by one or more other persons.
The non-executive directors shall supervise the policy and the fulfillment of duties of the executive directors and the general affairs of the company.

Any profit remaining shall be at the disposal of the General Meeting of Shareholders for distribution of dividend or reservation. In calculating the amount of profits to be distributed on each share, only the par value of the shares shall be regarded.
The Company shall only be capable of making distributions to shareholders and other persons who are entitled to profits that qualify for distribution if the Company's equity is in excess of the paid and called-up portion of the share capital increased by the reserves that must be set aside under the provisions of the law.
In the calculation of the distribution of profits the shares which the Company holds in its own share capital shall be disregarded.
Distribution of profits shall take place after confirmation and adoption of the Annual
Accounts showing that this is allowed. The Board of Directors shall have power to pay one or more interim dividends provided.

Company has no shares without voting rights and no shares without profit rights or with limited profit rights.

CORPORATE INFORMATION

The Netherlands

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INDEPENDENT AUDITOR’S REPORT

INDEPENDENT AUDITOR'S REPORT

To: The shareholders of Milkiland N.V.

Report on the audit of the financial statements 2018 included in the annual report

OUR OPINION

We have audited the financial statements 2018 of Milkiland N.V. based in Amsterdam. The financial statements comprise the consolidated and company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Milkiland N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying company financial statements give a true and fair view of the financial position of Milkiland N.V. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2018;
2. the following consolidated statements for 2018: the consolidated income statement, the consolidated statements of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity; and
3. the notes to the consolidated financial statements comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company statement of financial position as at 31 December 2018;
2. the company income statement for 2018; and
3. the notes to the company financial statements comprising a summary of the accounting policies and other explanatory information.

BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Milkiland N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw your attention to note 1 of the consolidated financial statements regarding the going concern assumptions.

Per December 31, 2018 the equity of Milkiland N.V. amounts to € 5.2 million negative. A loss amounting to € 20.1 million has been realized over 2018. Operating cash flows were € 3.1 million positive, while the net cash flow was € 0.3 million negative.

Milkiland N.V. conducts a significant part of its operations in Russia and Ukraine. The closure of the traditional Russian export market for Ukrainian and Polish subsidiaries , a deep devaluation of Russian Ruble and Ukrainian Hryvnia, and a decline of the demand for dairy products in Russia and Ukraine have had an adverse effect on Milkiland's financial position and performance in previous years. As from 2017 the economies of Russia and Ukraine started to recover. Both the timing and the dynamics of this process remain uncertain, which may adversely affect Milkiland's operations and financial performance.

A significant amount of the company's external loans ("Syndicate Loans") are denominated in US Dollar. Given this and the devaluation of the Hryvnia and Rubble against the US Dollar as from 2014, the company is no longer able to meet the covenants agreed with the banks and to make the scheduled loan repayments. Although in 2019 50% of the Syndicate Loans are close to final refinancing with a third party, the banks are entitled -given the breach of covenants- to exercise certain rights among acceleration repayments of the loans. This could materially affect the ability of Milkiland to continue as a going concern. The company is dependent on the willingness of the banks to allow time for refinancing of the debts and not enforce early repayment. Also, in the course of 2017 Milkiland has initiated a voluntary liquidation procedure for its OJSC "Ostankino Dairy" factory due to the filing of a bankruptcy petition against it by OJSC Bank "Vozrogdenie".

The ability of the company to continue its operations is dependent upon the Syndicate to continue the current financing until refinancing or restructuring is arranged and the upcoming negotiations with the Syndicate and third parties and finding a mutually acceptable solution of the settlement of the indebtedness to Ostankino's creditors as well as improvement of future profitability and cash flows.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MATERIALITY

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 1.3 million. The materiality is based on 1% of total revenue. We have applied this benchmark based upon our analysis of the mutual interests of the users of these financial statements. Based upon our analysis we conclude that revenue is an important key figure to determine the financial performance of Milkiland N.V. We identified - amongst others - the shareholders and loan note holders as important group of users. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the audit committee that misstatements in excess of EUR 32,500, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

SCOPE OF THE GROUP AUDIT

Milkiland N.V. is the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Milkiland N.V.

Our group audit mainly focused on significant group entities. We consider a component significant if:

- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

To this extent we:

- used the work of component auditors in the Ukraine, the Russian Federation and in Poland. Given the location of the representative office of Milkiland N.V. being situated in Kiev, Ukraine, the Ukrainian component auditor included this in their scope upon our request. Given the significance of the Ukrainian, Russian and Poland entities we have performed file reviews on site on the work of the component auditors in order to obtain sufficient assurance to be able to rely on the work of the component auditors; and
- performed review procedures or specific audit procedures at other group entities.

By performing the procedures mentioned above at the components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

OUR KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

The key audit matters are:

- Occurrence and cut-off of revenue
- Valuation of property, plant and equipment; and;
- Valuation of investment property.

The key audit matters are detailed below.

In the previous year the "Transition as auditors including the audit of the opening balance" was a key audit matter. This transition was finalized as part of the audit for the year 2017.

Description of the Key Audit Matter	Our audit response regarding the Key Audit Matter
Occurrence and cut-off of revenue **Revenue amounts to € 132 million (2017: € 140 million).**	In order to obtain sufficient audit evidence our audit procedures included and our component

We consider revenue recognition and in particular occurrence and cut-off to be a key audit matter as revenue is one of the key figures in determining the financial performance of Milkiland N.V.. We identified a fraud risk related to the tenancy to overstate revenue and/or to understate the amount of discounts earned by customers. The revenue accounting policies are specified in note 2 (Summary of significant accounting policies) to the financial statements.	auditors performed, amongst others, the following procedures: - Evaluation of relevant internal controls and determine existence of internal controls relating to the revenue and receivables process; - Performing inventory counts at year end; - Performing substantive audit procedures on the appropriate allocation of revenue to the correct period (cut-off testing); - Performing reconciliation between delivery of goods and revenue recognized (occurrence test); - Performing substantive analytical procedures on revenue per month and per customer; - Performing sample tests on contracts with supermarkets and retailers in order to assess the completeness of discounts recognized; - Performing post balance sheet date testing on any credit invoices issues or amounts paid to verify whether these related to discount arrangements for 2018; - Performing substantive audit procedures whether intercompany sales transactions are at arm's length and whether profits are properly eliminated when unrealized; - Performing details tests on manual journal entries posted around yearend in relation to recognized revenue. We evaluated the disclosure in the financial statements, in particular note 21 (Revenue) for compliance with IFRS 15 *Revenue from Contracts with Customers*.
Valuation of property, plant and equipment The account property, plant and equipment amounts per year end to € 91 million (2017: € 100 million) and represent per year end 58% of the total assets (2017: 60% of the total assets). Property, plant and equipment is stated at fair value in accordance with IAS 16 *Property, Plant and equipment* and IFRS 13 *Fair value measurement.* Fair value valuation of property, plant and equipment is determined by external independent appraisers who use multiple appraisal methods, including the income or cost approach for determining fair value. Valuation of property, plant and equipment is performed in a sufficient frequency to ensure	We have – together with our component auditors – applied a substantive audit approach regarding the valuation of property, plant and equipment. In 2017 we extensively challenged the external appraisals which have been made to value the property, plant and equipment at their fair value as per 31 December 2017. To mitigate the audit risk -the valuation of property, plant and equipment as per 31 December 2018- we held a robust discussion with management relating to their point of view on not revaluating the property, plant and equipment and:

that the fair value of a revalued asset does not differ materially from its carrying amount. For 2018, no valuation is performed as a result of management's assessment that no indicators exist that the fair value differs materially from its carrying amount. Management's estimates are required in order to determine whether a revaluation of property, plant and equipment is required. These estimates are complex and require significant judgments of management, such as: • External factors, such as decline in market value of comparable assets or changes in interest rates; • Internal factors, such as forecast information. Therefore, we identified the valuation of property, plant and equipment as a key audit matter. The accounting policies regarding property, plant and equipment are specified in note 2 (Summary of significant accounting policies) to the financial statements.	• challenged management's plan relating to the fixed valuation dates, being each three years unless any predetermined trigger is met; and • evaluated management's assessment regarding triggering events. We evaluated the disclosure in the financial statements, in particular note 2 (Summary of significant accounting policies) and 11 (Property, plant and equipment and intangible assets) for compliance with IAS 16 *Property, plant and equipment* and IFRS 13 *Fair value measurement*.
Valuation of investment property The account investment property amounts per year end to € 18 million (2017: € 17 million) and represent per year end 12% of the total assets (2017: 10% of the total assets). Investment property is stated at fair value in accordance with IAS 40 Investment Property and IFRS 13 Fair value measurement. Fair value valuation of investment property is determined by external independent appraisers who use multiple appraisal methods, including the income or cost approach for determining fair value. Valuation of investment property is performed annually. In addition, estimates are used to calculate the fair value of investment property. This includes reference data and assumptions regarding forecasted vacancies, rental income and rent free periods.	We have – together with our component auditors – applied a substantive audit approach regarding the valuation of property, plant and equipment and investment property. Investment property To mitigate the audit risk we held a robust discussion with management relating to their point of view on the valuation of investment property and: • challenged the competence, ability and objectivity of the Register Valuator (management's expert); • tested the applied model as disclosed in note 2 (Summary of significant accounting policies) including the appropriate use of formulas; • agreed the input variables, based upon historical information relating to the investment property with audited 2018 financial information including analytical review procedures; and

The estimations including the applied methodology may have significant effect on the (fair) value of investment property. Based upon the significant judgements underlying management's assessment respectively the fair value calculations and the size of the account, we identified the valuation of investment property as a key audit matter. The accounting policies regarding investment property are specified in note 2 (Summary of significant accounting policies) to the financial statements.	• included a valuation expert to validate the appropriate valuation method and consistent use of assumptions used with available market data. We evaluated the disclosure in the financial statements, in particular note 2 (Summary of significant accounting policies) and 12 (Investment property) for compliance with IFRS 40 *Investment Property* and IFRS 13 *Fair value measurement*.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Five year summary on financial highlights and ratios;
- CEO and Chairman's statement;
- Report of the board of directors on operations for the year 2018;
- Corporate governance report;
- the other information as required by Part 9 of Book 2 of the Dutch Civil Code; and
- the other information as included in the table of contents of the annual report 2018.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the report of the board of directors on operations for the year 2018 tin accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

ENGAGEMENT

We were engaged by the Board of Directors as auditor of Milkiland N.V. on November 10, 2017 as of the audit for the year 2017 and have operated as statutory auditor ever since that financial year up to and including the audit for the year 2018.

NO PROHIBITED NON-AUDIT SERVICES

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding the financial statements

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

The Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors are responsible for such internal controls as they determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The audit committee is responsible for overseeing the company's financial reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

A more detailed description of our responsibilities is set out in the appendix to our report.

Zaltbommel, April 30, 2019
accon avm controlepraktijk B.V.
On behalf:

w.s.

W.J. Warmerdam MSc RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2018 OF MILKILAND N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- compiling a team with sufficient specialized knowledge and expertise. In the component auditor team a valuation specialist is included;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concluding on the appropriateness of the Board of Directors use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures;
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report. We provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the audit committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.