Interim Statement

Results of the first quarter 2017

Milkiland N.V. hereby publishes the Group's results of the first three months of 2017

Highlights of the 1st quarter 2017

Macroeconomic environment

- First quarter of 2017 was a period of improved macroeconomic environment in the key markets of the Group in Russia and Ukraine, when the restoration of the growth trends in the national economies of both countries became evident. In particular, Russian GDP in Q1 2017 grew by 0.4% on the back of growing adding value in the processing sectors of the economy. Real GDP of Ukraine in 2016 increased by 2.3% on y-o-y basis, mainly fueled by increased performance of the agricultural sector.
- More stable situation with the national currencies of the both countries in Q1 2017, when Russian rouble softly devalued against EUR by 5.3%, while Ukrainian hryvnya exchange rate against European currency remained practically stable, positively differed from the situation of deep devaluation of these currencies in 2015-2016.
- At the same time, the situation with the real income of population in Russia and Ukraine remained stagnating in Q1 2017 providing no or little impact on higher consumption of FMCG goods.

Operational environment and results

- In the first quarter of 2017, the Group decreased its overall output by c.20% y-o-y following its strategy to focus on production of higher value added products on its key markets. The Group prioritized preserving its profitability through selling of high value-added products at the local markets of its presence, as well as on capturing the opportunities of profitable international trade, primarily by dry milk products.
- In Q1 2017 Russian segment of the Group's business faced a situation of growing production costs on the back of higher prices for raw milk in the Russian market (+18% on average in comparison with Q1 2016). The milk price run in the domestic market was triggered by the dairy import substitution in the conditions of the remaining trade barriers imposed by Russian authorities against EU and Ukrainian dairy producers.
- To overdue this pressure on costs, Ostankino Dairy Combine concentrated its efforts on the supporting of the profitability of the business by means of selling of the high value-added whole milk dairy goods, better servicing of the key clients, as well as increasing the prices for finished products in line with general market trends. As the result, the profitability of Ostankino business on EBITDA level was increased on y-o-y basis.
- Milkiland RU in line with the Group's strategy of the growing local competence continued the localization of cheese production at its subsidiary in Rylsk.
- Declining raw milk production in EU in Q1 2017, while the volume of milk supplied for processing was by 3.3% lower in comparison with the same period of 2016, triggered some deficit of butter and increasing prices trend for this good, as well as for dry milk products, globally. This factor also influenced on the situation in the Ukrainian dairy market. The aim of the local dairy producers to capitalize on the above mentioned trend

together with the declining raw milk production in the country led to galloping raw milk prices, which in Q1 2017 were on average by 43% higher y-o-y.

- Aiming to support the profitability of the business Milkiland Ukraine focused on the development of sales of high value-added products, including innovative lactose-free cheese and whole milk products, primarily in the key accounts channel, also trying to increase the prices for finished goods in line with the general market trends. It allowed to the Group to retain the EBITDA margin of the Ukrainian segment in Q1 2017 almost on the same level as in the same period of 2016 (-1 pp. y-o-y).
- In the reporting period, Milkiland EU managed, first time during a history of its operations under the Group's control, to deliver the stable profitability of the business. The effective implementation of the tolling contract with the German company B2B Intertrade for production of cheese product, mainly stood behind this. Milkiland EU also continued its traditional business of production and selling of dry milk products, including WPC and permeate.
- In order to capture the opportunities of the international trade in the conditions of restoration of global prices for dry milk products, in Q1 2017 Milkiland Intermarket more than doubled the supplies of these products to the promising markets of several countries, including Israel, Jordan and China and became #1 Ukrainian exporter of dry milk products.

Group's Sales in Q1 2017 by geographical segments

Russia was the largest geographical segment in terms of revenue generation for Milkiland in Q1 2017 providing for c. 68% (almost the same with Q1 2016). The segment's revenue was almost flat y-o-y and stood at c. EUR 25 million.

Ukraine contributed almost 17% to the Group's revenue in Q1 2017 (c. 24% in Q1 2016). Segment revenue decreased by c. 30% to c. EUR 6.1 million, mainly due to selling volumes contraction triggered by lower processing volumes.

Poland contributed c. 5% to the Group's revenue in Q1 2017 (the same in Q1 2016), the segment's revenue increased by c. 6.4% y-o-y to c. EUR 1.8 million

Other segment, which included the sales of the Group's products to the promising new markets of the third-countries, gained its share in the total sales of Milkiland in Q1 2017 of c. 10%. The revenue of the segment boosted by 3 times y-o-y to c. EUR 3.9 million.

Group's Sales in Q1 2017 by business segments

Whole-milk dairy was the largest segment in terms of revenue and business segments EBITDA[1] providing for c. 59% of revenue (61% in Q1 2016) and being the largest EBITDA-generating segment in Q1 2017. The segment's revenue declined by c. 3% to EUR 21.7 million on a back of lower sales volumes, while its EBITDA grew by 2% to EUR 1.4 million, reflecting a growth of profitability of the Russian division due to higher finished goods prices and development of high value-added dairy sales. The segment's Q1 2017 EBITDA margin reached 6.6%, up 0.3 pp y-o-y.

Cheese & butter segment contributed approximately 26% to the Group's total revenue (31% in Q1 2016). Segment's revenue decreased by c. 15% to EUR 9.6 million due to sales volumes contraction on the back of limited volumes of the Group's cheese sales markets, when the former main market for Milkiland's cheese in Russia remained closed. Segment's EBITDA declined by c. 45% to EUR 0.4 million, implying Q1 2017 segment's EBITDA margin of 4.3%.

[1] Business segments EBITDA is calculated net of other segments EBITDA, namely EBITDA contribution of Milkiland N.V., the holding company of the Group.

In *Ingredients segment*, revenue doubled to EUR 5.7 million fueled more favorable international global market conjuncture and opening the supplies to the new markets of several counties, including Israel, Jordan and China. It contributed c. 15% to the Group's total revenue versus c.8% in Q1 2016. At the same time, the segment's EBITDA surged by more than 3 times to c. EUR 0.6 million with EBITDA margin of 10.1% in Q1 2017.

Financial results

- Milkiland's revenue in Q1 2017 remained flat y-o-y despite the decrease of the Group's output based on the efforts on support of the profitability of the Group's business.
- Decrease of the cost of sales by 3.6% to c. EUR 30 million on the back of the controversial trends of the declined processing volumes of raw milk versus the growth of the effective price for this raw material led to the growth of the Group's Gross profit by c. 32% to c. EUR 6.8 million. The Gross margin of Milkiland then improved by 4.4 pp. to 18.5%.
- Higher profitability of the Group's business resulted the increase of EBITDA by c.6% to c. EUR 2.4 million. At the same time, EBITDA margin improved by 0.3 pp. to 6.6%.
- Milkiland penciled a net profit of c. EUR 1 million in comparison with the significant net loss of c. EUR 16.4 million in Q1 2016
- PPE in the amount of c. EUR 4.7 million, namely the agri-subsidiaries of the Group, PJSC "Iskra" and LLC "Uspikh-Mena", were sold to the third-party buyers within the Restructuring agreement with one of the major creditors of Milkiland, PJSC Credit Agricole Bank.
- The earnings from these deals were one of the sources for the partial repayment of the debt portfolio of the Group. It was amounted c. EUR 103 million as of 1 January 2017. During Q1 2017 c. EUR 4.5 million was repaid by the Group, another c. EUR 0.3 million was refinanced. As the result, the total debt portfolio of the Group declined by c.3% to c. EUR 99 million as of 31 March 2017.

REPRESENTATION

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 31 March 2017 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the three months ended 31 March 2017 gives a true view of the developments, achievements and situation of the Company, including a description of the key risks and threats.

Board of Directors of Milkiland N.V.

Amsterdam, 29 May 2017

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

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the three months ended 31 March 2017

Contents

Condensed Consolidated Interim Financial Statements

MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the three months ended 31 March 2017
(All amounts in euro thousands unless otherwise stated)

	Notes	31 March 2017 (unaudited)	31 December 2016 (audited)	31 March 2016 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	771	1,044	886
Trade and other receivables	7	21,380	20,042	20,977
Inventories	8	13,635	12,878	10,723
Current biological assets	12	1,194	1,096	1,485
Current income tax assets		467	434	530
Other taxes receivable	9	8,196	6,739	4,791
		45,643	**42,233**	**39,392**
Non-Current Assets				
Goodwill	10	1,687	1,558	1,726
Property, plant and equipment		97,252	98,763	108,137
Investment property		19,849	19,971	17,603
Non-current biological assets	12	1,199	1,383	1,378
Other intangible assets		2,345	2,325	2,266
Deferred income tax assets		2,620	2,223	2,948
		124,952	**126,223**	**134,058**
TOTAL ASSETS		**170,595**	**168,456**	**173,450**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	47,127	43,054	27,734
Current income tax liabilities		137	71	19
Other taxes payable	14	6,499	4,130	2,084
Short-term loans and borrowings		83,663	87,293	100,458
		137,246	**134,548**	**130,295**
Non-Current Liabilities				
Loans and borrowings	15	15,466	14,993	3,033
Deferred income tax liability		12,172	11,771	12,939
Other non-current liabilities		138	230	198
		27,776	**26,994**	**16,170**
Total liabilities		**165,202**	**161,542**	**146,465**
Equity attributable to owners of the Company				
Share capital	16	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		61,986	69,208	78,459
Currency translation reserve		(34,104)	(34,297)	(41,040)
Retained earnings		(75,415)	(80,918)	(63,299)
		4,279	**5,805**	**25,932**
Non-controlling interests		**1,114**	**1,109**	**1,053**
Total equity		**5,393**	**6,914**	**26,985**
TOTAL LIABILITIES AND EQUITY		**170,595**	**168,456**	**173,450**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the three months ended 31 March 2017
(All amounts in euro thousands unless otherwise stated)

	Notes	2017 (unaudited)	2016 (unaudited)
Revenue	17	36,915	36,465
Change in fair value of biological assets		1	(91)
Cost of sales	18	(30,098)	(31,219)
Gross Profit		**6,818**	**5,155**
Selling and distribution expenses	19	(3,228)	(3,026)
Administrative expenses	20	(3,180)	(2,992)
Other income, net	21	3,203	864
Operating profit/(loss)		**3,613**	**1**
Finance income	22		-
Finance expenses	23	(2,496)	(16,195)
Profit/(loss) before tax		**1,117**	**(16,194)**
Income tax	24	(3)	(248)
Net profit/(loss) for the year		**1,114**	**(16,442)**
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(2,635)	7,486
Total comprehensive loss		**(1,521)**	**(8,956)**
Loss attributable to:			
Owners of the Company		1,183	(16,328)
Non-controlling interests		(69)	(114)
		1,114	**(16,442)**
Total comprehensive loss attributable to:			
Owners of the Company		(1,526)	(8,718)
Non-controlling interests		5	(238)
		(1,521)	**(8,956)**
Earnings per share (EURO cent)		3.79	(52.25)

MILKILAND N.V.
Condensed consolidated interim statement of cash flows
For the three months ended 31 March 2017
(All amounts in euro thousands unless otherwise stated)

	Note	2017 (unaudited)	2016 (unaudited)
Cash flows from operating activities:			
Gain/Loss before income tax		**1,117**	**(16,194)**
Adjustments for:			
Depreciation and amortization	21	2,093	2,599
Loss from disposal and write off of inventories	21	830	53
Change in provision and write off of trade and other accounts receivable	21	(78)	8
Change in provision and write off of unrealised VAT	21	60	136
Gain/(loss) from write off, revaluation and disposal of non-current assets	21	(3,513)	(558)
Change in fair value of biological assets		5	91
Operational foreign exchange results, net	21	(1)	(8)
Finance income	22	55	-
Finance expenses	23	1,649	16,195
Write off of accounts payable	21		(1)
Operating cash flow before movements in working capital		**2,217**	**2,321**
Increase/ Decrease in trade and other accounts receivable		1,208	(2,978)
Decrease/ Increase in inventories		(1,501)	808
Increase/ Decrease in biological assets		72	(216)
Increase in trade and other payables		2,418	2,451
Decrease/ Increase in other taxes receivable		(8)	48
Decrease in other taxes payable		677	(34)
Net cash provided by/(used in) operations:		**5,083**	**2,400**
Income taxes paid		(2)	(57)
Interest received		-	27
Interest paid		(674)	(1,449)
Net cash provided by/(used in) operating activities		**4,407**	**921**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(598)	(816)
Net cash used in investing activities		**(598)**	**(816)**
Cash flows from financing activities			
Proceeds from borrowings	15	271	8,441
Repayment of borrowings	15	(4,319)	(8,546)
Commission paid and fair value adjustment			(4)
Net cash (used in)/provided by financing activities		**(4,048)**	**(109)**
Net decrease in cash and equivalents		**(239)**	**(4)**
Cash and equivalents, beginning of the period	6	**1,044**	**907**
Effect of foreign exchange rates on cash and cash equivalents		(34)	(17)
Cash and equivalents, end of the period	6	**771**	**886**

MILKILAND N.V.
Condensed consolidated interim statement of changes in equity
For the three months ended 31 March 2017
(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							
	Share capital (unaudited)	Share premium (unaudited)	Foreign currency translation reserve (unaudited)	Revaluation reserve (unaudited)	Retained earnings (unaudited)	Total stockholders' equity (unaudited)	Non-controlling interests (unaudited)	Total equity (unaudited)
Balance at 1 January 2016	**3,125**	**48,687**	**(48,651)**	**79,866**	**(48,377)**	**34,650**	**1,291**	**35,941**
Loss for the period	-	-	-	-	(16,328)	**(16,328)**	(114)	**(16,442)**
Other comprehensive loss, net of tax effect	-	-	7,611	(1)	-	**7,610**	(124)	**7,486**
Total comprehensive loss for the period	**-**	**-**	**7,611**	**(1)**	**(16,328)**	**(8,718)**	**(238)**	**(8,956)**
Realised revaluation reserve, net of income tax	-	-	-	(1,406)	1,406	-	-	-
Balance at 31 March 2016	**3,125**	**48,687**	**(41,040)**	**78,459**	**(63,299)**	**25,932**	**1,053**	**26,985**
Balance at 1 January 2017	**3,125**	**48,687**	**(34,297)**	**69,208**	**(80,918)**	**5,805**	**1,109**	**6,914**
Profit/Loss for the period					1,183	**1,183**	(69)	**1,114**
Other comprehensive loss, net of tax effect	-	-	193	(2,902)		**(2,709)**	74	**(2,635)**
Total comprehensive loss for the period	**-**	**-**	**193**	**(2,902)**	**1,183**	**(1,526)**	**5**	**(1,521)**
Realised revaluation reserve, net of income tax				(4,320)	4,320			
Balance at 31 March 2017	**3,125**	**48,687**	**(34,104)**	**61,986**	**(75,415)**	**4,279**	**1,114**	**5,393**

1 The Group and its operations

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the three months ended 31 March 2017 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The financial statements were approved by the Board of Directors on 29 May 2017.

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2009 the Company was converted into a public limited liability company (N.V.). The address of its registered office is De Ceserstraat 93, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

As at 31 March 2017 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

The Company mainly acts as a holding company and exercises control over the operations of its subsidiaries.

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide. The production facilities of the Group are located in Ukraine, in Russia and in Poland, able to process up to 1,330 thousand tons of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

As at 31 March 2017, the Group employed 4381 people.

(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations (continued)

Subsidiaries of the Company are presented below:

Name	Country of incorporatio	Principal activity	Effective share of ownership 31 March 2017	31 December 2016	31 March 2016
MLK Finance Limited	Cyprus	Trade	100.0%	100.0%	100.0%
Milkiland Intermarket (CY)	Cyprus	Trade	100.0%	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	Trade	100.0%	100.0%	100.0%
Milkiland Corporation	Panama	Trade	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	Managing/Trade	100.0%	100.0%	100.0%
Ostrowia sp. z.o.o	Poland	Production entity	100.0%	100.0%	100.0%
JSC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Milkiland RU	Russia	Managing/Trade	100.0%	100.0%	100.0%
LLC Moloko-Kursk	Russia	Production entity	100.0%	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	Managing	100.0%	100.0%	100.0%
DE Aromat	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Prometey	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Ros	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	Trade	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	Production entity	76.0%	76.0%	76.0%
PrJSC Gorodnia Milk Plant	Ukraine	Production entity	72.3%	72.3%	72.3%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Milkiland Ukraine	Ukraine	Trade	100.0%	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	Production	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	Managing	100.0%	100.0%	100.0%
PrJSC Transportnyk	Ukraine	Service provider	70.3%	70.3%	70.3%
LLC Milkiland Agro	Ukraine	Agricultural	100.0%	100.0%	100.0%
PrJSC Iskra Plus	Ukraine	Agricultural	100.0%	100.0%	100.0%
DE Agrolight	Ukraine	Production entity	100.0%	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Bahmachregionpostach	Ukraine	Grain elevator	100.0%	100.0%	100.0%
ALLC Nadiya	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Uspih-Mena-Plus	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Agro-Mena	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Lendinvest 3000	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Agrolendinvest	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Phobostrade	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Kilchensky Berig	Ukraine	Investment assets	100.0%	100.0%	100.0%
LLC Novomoskovsk Dairy	Russia	Production entity	100.0%	100.0%	100.0%
UA TRADE Sp. z o.o.	Poland	Trade	100.0%	100.0%	100.0%
Newholm Systems S.A.	Panama	Trade	100.0%	100.0%	100.0%
Agrointer Corporation	Panama	Trade	100.0%	100.0%	100.0%
LLC Kholod Property	Ukraine	Production entity	100.0%	-	-
LLC Syrnyy Mayster	Ukraine	Production entity	100.0%	-	-
LLC Cross Value	Marshall Isl.	Trade	100.0%	100.0%	100.0%

During the three months ended 31 March 2017, the Group finalized registration of new subsidiaries LLC Kholod Property, LLC Syrnyy Mayster in Ukraine and LLC Ostankino Dairy in Russia.

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the three months ended 31 March 2017 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Adoption of new or revised standards and interpretations.

New and amended standards adopted by the Group. There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have a material impact on the Group.

New standards and interpretations not yet adopted. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

Seasonality of operations. The Group's sales volumes and revenue are impacted by seasonal fluctuations in demand for its products. Demand for the Group's cheese products and butter typically peaks during late autumn and winter due to increases in demand for higher-fat products during colder months.

The availability and price of raw materials required by the Group are also subject to seasonal fluctuation. As a result of the lifecycle of herds of cows and seasonal temperature changes, raw milk production in Ukraine and peaks during the summer months, typically creating a raw milk surplus and resulting in lower prices, and then falls during the autumn. In a summer the Group purchases all raw milk when there is a surplus so as to enhance its working relationship with its suppliers. The Group manages this surplus by drying milk in a summer and uses or sells it in the winter periods.

Management believes that the raw milk prices in Russia are affected by seasonality to a lesser extent than in Ukraine due to the differences in structure of raw milk supplies. The Group sources approximately 30% of its raw milk requirements in Ukraine from individual household producers, while in Russia the Group sources its raw milk primarily from the farms, which are less susceptible to seasonal variations. However, due to Russia being a net importer of dairy products, prices for such products in Russia are more dependent on the world prices for dry milk, which are also subject to cyclicality and seasonal variations.

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk. During the three months ended 31 March 2017 the in-house milk production covered c.17% of milk intake in Ukraine.

(All amounts in euro thousands unless otherwise stated)

2 Summary of significant accounting policies (continued)

Foreign currency. Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in euro, which is the Company's functional and the Group's presentation currency.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates at the balance sheet date. Income and expenses of foreign operations are translated to euro at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

The EUR exchange rates used in the preparation of these consolidated financial statements are as follows:

	US dollar	UAH	RUR	PLN
As at 31 March 2017	1.0691	28.8401	60.5950	4.2198
Average for three months ended 31 March 2017	1.0650	28.8193	62.6474	4.3246
As at 31 December 2016	1.0541	28.6619	63.8111	4.4240
As at 31 March 2016	1.1385	29.8493	76.5386	4.2684
Average for three months ended 31 March 2016	1.1026	28.2962	82.3373	4.3602

3 Critical accounting estimates and judgments

The preparation of the financial statements requires the management to make various estimations and assumptions that affect reporting values of the assets and liabilities as well as disclosure of information on contingent assets and liabilities at the statement of financial position date. Actual results might differ from the current estimations. The estimations are periodically reviewed. Should the adjustments be needed they are reported in the financial results of the period when they became aware.

Below are the main assumptions as to future events and other sources of uncertainties of estimates at the reporting dates that are of a great risk of the necessity to make significant adjustments to the carrying amount of assets and liabilities during the next reporting year:

Impairment of property, plant and equipment. Detection of impairment indications of property, plant and equipment provides for use of estimates that include, in particular, reasons, terms and amounts of the impairment. Impairment is based upon the analysis of many factors, such as: changes in current competitive conditions, expectations of an industry recovery, capital appreciation, changes in possibilities of future financing attraction, technological obsolescence, servicing suspension, current replacement cost and other changes in circumstances that indicate the impairment.

Management's estimates are required in order to determine the compensation amount for a cash generating unit. The value in use estimation includes methods based on the estimation of expected future discounted cash flows. This requires the Group to evaluate these cash flows for cash generating units and choose a grounded discount rate to calculate a present value of cash flows.

The estimations including the applied methodology may have significant effect on the fair value and impairment amount of property, plant and equipment.

Biological assets. Due to the absence of an active market, the fair value of biological assets is estimated by present valuing the net cash flows, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the statement of financial position date.

Provision for doubtful accounts receivable. Provision for doubtful debts is charged based on factual data about accounts receivable payment and the solvency analysis of the most significant debtors. In case of worsening the clients' financial position, a factual losses volume may exceed an estimated one. Additional information is disclosed in note **7**.

Legal actions. The Group's management applies significant judgments during the estimation and recognition of provisions and risks of contingent liabilities associated with existing legal actions and other unsettled claims that should be settled by way of negotiations, mediation, arbitration or state interference as well as other contingent liabilities. The management's judgment is essential during the possibility of a claim settling as regards the Group or material obligations and during the determination of a possible amount of final settlement. Due to the uncertainty inherent to the estimation process, actual expenses may differ from the initial estimation of provision. These previous estimations may vary as new information becomes available, mainly, from the Group's specialists, if any, or from outside consultants, such as actuaries or lawyers. A review of these estimations may have a substantial impact on future operating results.

(All amounts in euro thousands unless otherwise stated)

4 Segment information

The management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board considers the business from both a geographic and product perspective. Geographically, management considers the performance of business in Ukraine, Russia, Poland and Netherlands. The Netherlands segment does not meet the quantitative threshold required by IFRS 8 and is not reported.

Ukraine, Russian and Poland segments are further segregated in the following main reportable segments:

- Cheese & butter – this segment is involved in production and distribution of cheese and butter products;
- Whole-milk – this segment is involved in production and distribution of whole-milk products;
- *Ingredients* – include production and distribution of dry milk, agricultural products, and other products, which - although contributing a relatively small amount of revenue to the Group, are monitored by the Board of Directors as well.

The Board of Directors assesses the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event.

As information on segment assets are not reported to the Board of Directors, this is not disclosed in these financial statements.

Inter-segment sales are priced along the same lines as sales to external customers, with an appropriate discount being applied to encourage use of group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior period.

The segment information by country for the three months ended 31 March is as follows:

	2017				**2016**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	25,175	8,914	2,855	36,944	24,753	9,220	2,524	36,497
Inter-segment revenue			(29)	(29)	-	(32)	-	(32)
Revenue from external customers	25,175	8,914	2,826	36,915	24,753	9,188	2,524	36,465
EBITDA	**1,781**	**454**	**188**	**2,423**	**1,891**	**375**	**24**	**2,290**
EBITDA margin	7%	5%	7%	7%	8%	4%	1%	6%
Depreciation and amortisation	778	845	470	2,093	676	1,427	496	2,599

(All amounts in euro thousands unless otherwise stated)

4 Segment information (continued)

Inter-segment revenue is related to inter-group sales of dairy goods to third party customers.

The segment information by product for the three months ended 31 March is as follows:

	2017				**2016**			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	9,550	21,665	5,729	36,944	11,225	22,338	2,934	36,497
Inter-segment revenue	(1)		(28)	(29)	-	-	(32)	(32)
Revenue from external customers	9,549	21,665	5,701	36,915	11,225	22,338	2,902	36,465
EBITDA	**412**	**1,435**	**576**	**2,423**	**742**	**1,408**	**140**	**2,290**
EBITDA margin	4%	7%	10%	7%	7%	6%	5%	6%
Depreciation and amortisation	974	1,065	54	2,093	934	1,079	586	2,599

A reconciliation of EBITDA to profit before tax for the three months ended 31 March is as follows:

	2017	**2016**
EBITDA	2,423	2,290
Other segments EBITDA	(183)	(255)
Total segments	**2,240**	**2,035**
Depreciation and amortisation	(2,093)	(2,599)
Loss from disposal and impairment of non-current assets	3,466	558
Finance expenses	(2,436)	(16,195)
Finance income	(60)	(111)
Profit/(loss) before tax	**1,117**	**(16,194)**

(All amounts in euro thousands unless otherwise stated)

5 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". During the reporting period the company had related party transactions with ultimate shareholder, key management and companies under common control.

Group's transactions with its related parties for the three months ended 31 March were as follows:

Entities under common control:	**2017**	**2016**
Revenue		15

The outstanding balances due from related parties were as follows:

Entities under common control:	**31 March 2017**	**31 December 2016**	**31 March 2016**
Trade accounts receivable	281	281	247
Other financial assets	3,446	4,323	2,412
Other accounts receivable	65	224	80

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the three months ended 31 March 2017 paid or payable to key management for employee services is EUR 36 thousand (2016: EUR 167 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 March 2017	**31 December 2016**	**31 March 2016**
Short term deposits		0	39
Cash in bank and cash on hand	771	1,044	847
Total cash and cash equivalents	**771**	1,044	**886**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	31 March 2017	31 December 2016	31 March 2016
Trade accounts receivable	13,084	13,386	13,657
Other financial assets	10,665	10,752	9,768
Allowance for doubtful debts	(9,688)	(9,707)	(9,301)
Total financial assets within trade and other receivables	**14,061**	**14,431**	**14,124**
Advances issued	3,416	1318	3,436
Other receivables	4,614	4,873	4,015
Allowance for doubtful debts	(711)	(580)	(598)
Total trade and other accounts receivable	**21,380**	**20,042**	**20,977**

The carrying amounts of the Group’s trade and other receivables approximate their fair value. Maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

8 Inventories

	31 March 2017	31 December 2016	31 March 2016
Raw and other materials	4,255	4,902	4,849
Finished goods and work in progress	8,852	7,445	5,777
Agriculture produce	528	531	97
Total inventories	**13,635**	**12,878**	**10,723**

9 Other taxes receivable

	31 March 2017	31 December 2016	31 March 2016
VAT recoverable	7,900	6,286	4,684
Payroll related taxes	67	75	72
Other prepaid taxes	229	378	35
Total other taxes receivable	**8,196**	**6,739**	**4,791**

(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	2017	**2016**
Balance at 1 January	1,726	1,746
Foreign currency translation	(39)	(20)
Balance at 31 March	**1,687**	**1,726**

Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to foreign subsidiaries, it is translated each year as part of the translation of the foreign operation.

11 Property, plant and equipment and intangible assets

During three months ended 31 March 2017 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 89 thousand (2016: EUR 816 thousand), which comprised mainly modernisation of milk processing capacities.

(All amounts in euro thousands unless otherwise stated)

12 Biological assets

The Group is engaged in agricultural activities mainly for the following purposes:

- Development of livestock in order to create own base for raw milk supply.
- Grow of maize, wheat and barley with the main purpose to sale to the external customers.

Non-current cattle are represented by dairy livestock with an average yearly lactation period of nine months. Current cattle comprise immature cattle and cattle intended for sale. Other biological assets mainly represent pigs and horses.

To estimate the fair value of biological assets, a valuation, which conforms to International Valuation Standards, was performed by the Group, fair value is estimated as the present value of the net cash flows expected to be generated from biological assets discounted at a current market discount rate.

As at 31 March 2017, 2016 and 31 March 2016 biological assets comprise the following groups:

	31 March 2017		**31 December 2016**	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	2,857	1,005	3,078	956
Other livestock				4
Total biological assets of animal breading	**2,857**	**1,005**	**3,078**	**960**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Wheat	-		-	-
Other	-	189	-	136
Total biological assets of plant growing	-	**189**	-	**136**
Total current biological assets	-	**1194**	-	**1,096**
Non-current biological assets	Units	Amount	Units	Amount
Cattle			1,996	1,383
Other livestock	1,688	1,199		
Total non-current biological assets	**1,688**	**1,199**	**1,996**	**1,383**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	31 March 2017	31 December 2016	31 March 2016
Trade payables	18,335	16,076	13,425
Accounts payable for fixed assets			24
Interest payable	12,819	11,511	5,833
Other financial payables	357		158
Total financial liabilities within trade and other payable	**31,511**	**27,587**	**19,440**
Wages and salaries payable	2,050	1,798	1,692
Advances received	8,495	7,682	3,780
Other accounts payable	3,948	5,088	1,588
Accruals for employees' unused vacations	1,123	899	1,234
Total trade and other payables	**47,127**	**43,054**	**27,734**

Financial liabilities are normally settled within 60-days period.

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

14 Other taxes payable

	31 March 2017	31 December 2016	31 March 2016
VAT payable	3,017	1,355	798
Payroll related taxes	2,629	2,119	1,189
Other taxes payable	853	656	97
Total other taxes payable	**6,499**	**4,130**	**2,084**

15 Loans and borrowings

	31 March 2017	31 December 2016	31 March 2016
Current			
Interest bearing loans due to banks	82,031	85,448	98,796
Loans from non-financial institutions		-	-
Bank overdrafts	217	435	518
Finance leases	1,415	1,410	1,144
Total current borrowings	**83,663**	**87,293**	**100,458**
Non-current			
Interest bearing loans due to banks	15,390	14,919	2,004
Finance leases	76	74	1,029
Total non-current borrowings	**15,466**	**14,993**	**3,033**
Total borrowings	**99,129**	**102,286**	**103,491**

Movement in loans and borrowings during the three months ended 31 March was as follows:

	2017	2016
Balance at 1 January	**102,286**	**107,471**
Obtained new loans and borrowings	271	8,437
Repaid loans and borrowings	(4,319)	(8,546)
Foreign exchange (gain)/loss	891	(3,871)
Balance at 31 March	**99,129**	**103,491**

As at 31 March 2017 the Group has not met requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio.

16 Share capital

Share capital as at 31 March is as follows:

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

(All amounts in euro thousands unless otherwise stated)

17 Revenue

Sales by product during the three months ended 31 March was as follows:

	2017	2016
Cheese & Butter	9,549	11,225
Whole-milk products	21,665	22,338
Ingredients	5,701	2,902
Total revenue	**36,915**	**36,465**

Regional sales during the three months ended 31 March was as follows:

	2017	2016
Russia	25,101	24,684
Ukraine	6,111	8,745
Poland	1,841	1,731
Other	3,862	1,305
Total revenue	**36,915**	**36,465**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2017	2016
Raw and other materials	23,463	23,381
Wages and salaries	1,237	1,702
Depreciation	1,772	2,336
Transportation costs	349	452
Gas	792	876
Electricity	668	1,006
Social insurance contributions	281	383
Repairs of property, plant and equipment	88	490
Water	23	75
Other	388	673
Changes in finished goods and work in progress	1,064	(155)
Total cost of sales	**30,098**	**31,219**

19 Selling and distribution expenses

	2017	2016
Transportation costs	1,664	1,457
Security and other services	48	95
Marketing and advertising	10	232
Wages and salaries	732	786
Social insurance contributions	182	187
Licence fees	4	6
Rental costs	38	45
Depreciation and amortisation	178	57
Other	372	161
Total selling expenses	**3,228**	**3,026**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2017	**2016**
Wages and salaries	1,372	1,421
Social insurance contributions	248	224
Taxes and other charges	495	369
Representative charges	86	43
Other utilities	47	36
Bank charges	45	64
Repairs and maintenance	39	66
Depreciation and amortisation	173	182
Consulting fees	152	178
Security and other services	114	83
Transportation costs	83	64
Property insurance	7	11
Rental costs	31	85
Communication	30	34
Office supplies	6	7
Other	252	125
Total administrative expenses	**3,180**	**2,992**

21 Other income, net

	2017	**2016**
Government grants recognised as income	11	359
Gain from write off of accounts payable	25	1
Change in provision and write off of trade and other accounts receivable	78	(8)
Depreciation and amortisation	29	(24)
Other income, net	(234)	223
Gain/(loss) from disposal of non-current assets	3,510	558
Loss from disposal and write off of inventories	(832)	(53)
Penalties	(111)	(64)
Operational foreign exchange results, net	787	8
Change in provision and write off of VAT receivable	(60)	(136)
Total other expenses/(income), net	**3,203**	**864**

22 Finance income

	2017	**2016**
Finance foreign exchange gain		-
Bank deposits	55	-
Total finance income	**55**	**-**

(All amounts in euro thousands unless otherwise stated)

23 Finance expenses

	2017	2016
Bank borrowings	2,151	2,902
Other borrowings	87	23
Finance leases	17	23
Finance foreign exchange loss	181	13,247
Total finance expenses	**2,436**	**16,195**

24 Income tax

	2017	2016
Current income tax	38	162
Deferred income tax	(35)	86
Total income tax	**3**	**248**

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

25 Contingent and deferred liabilities

The Group from time to time participates in legal proceedings. None of them either separately or in aggregate had significant negative effect on the Group.

DE Milkiland Ukraine, the subsidiary of the Company, participates in a case for the recovery of debt obligations, acting as a defendant. The subject of the lawsuit is a debt collection under the loan agreement for the total amount EUR 2,208 thousand as at 31 March 2017. In the mentioned case PJSC "Bank Forum" is a plaintiff and DE Milkiland Ukraine and the Company are solidarity defendants. Another group company DE Aromat acts a mortgagor and granted as collateral its property, plant and equipment with value of EUR 4,081 thousand as at 31 March 2017.

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

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

If the court decision is not in favor of DE Milkiland Ukraine, such a decision may have an effect on the financial condition or results of operations of the Company subsidiaries. There is a potential risk that the lender can foreclose on DE Milkiland Ukraine by reissuing the ownership of the mortgaged property to a new owner without the knowledge DE Milkiland Ukraine. In addition, penalties for a late return of the loan may be charged.

Management believe that in the case of the completion of disputes relating to the powers of the temporary administration Bank PJSC Forum and the decision by a court on the future operations of the Bank, DE Milkiland Ukraine will be able to engage in constructive dialogue with the legitimate administration of the Bank for further restructuring of the company's obligations, as well as the payment of its liabilities and assets deriving from collateral. As at 31 March 2017 no additional obligations except for the direct liabilities under the loan contract were recognized in these financial statements.

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

26 Capital management policy

Main objectives of the Group's capital management policy are the improvement of the financial independence and liquidity coefficient, improvement of accounts receivable structure and capital impairment.
Basic capital structure management methods are profits maximization, investment program management, borrowed capital management, use of borrowing costs of different classes.

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the three months ended 31 March 2017 no changes were made in objectives, policies and procedures of the capital management.

The Group controls over its capital using the financial leverage coefficient calculated through division of the net debt by the sum of capital and net indebtedness.

Borrowing, EBITDA, interest expenses and tangible net worth shall be calculated and interpreted on a consolidation basis in accordance with the IFRS and shall be expressed in EUR.

As at 31 March 2017 the Group has not met requirement in respect of above mentioned covenants. According to the original loan terms signed on December 16, 2012, the Company should repay the whole amount of loan denominated in USD till the end of December 2015. As at 31 March 2017, the value of the principal of the loan in amount EUR 58,580 thousand (equivalent EUR 51,454 thousand in original currency) is classified as current interest bearing loans due to banks (note15).

27 Subsequent events

Restructuring of the Group's indebtedness

Since the beginning of 2017 the Group has been continuing the negotiations with a main creditors of Milkiland, namely UniCredit Bank Austria AG and AO Raiffeisenbank, aimed at signing of long-term Restructuring agreement of debt under Syndicated Loan Facility Agreement provided by those banks.

In December 2015 "Deloitte & Touche" Ltd., a member firm of Deloitte Touche Tohmatsu Limited, finalized the Group's Independent Business Review and review of short-term liquidity forecast, which were delivered for consideration of the main creditors of Milkiland.

Accept that, Milkiland has a confirmation 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 the amount of US $ 58 580 000 + outstanding interest and other due payments as of 10 March 2017 to UniCredit Group and Raiffeisen Bank.

JSC "Ostankino Dairy" bankruptcy and voluntary liquidation

The Company and JSC "Ostankino Dairy" received the information that Public JSC Bank "Vozrogdenie" ("the Creditor") filed the bankruptcy petition against JSC "Ostankino Dairy" 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 JSC "Ostankino Dairy" to repay the indebtedness to the Creditor in the total amount of RUB 309.2 million (EUR 5.13 million).

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

Based at the above mentioned petition, Arbitrage Court of the City of Moscow initiated the legal case on bankruptcy of JSC "Ostankino Dairy". The decision to appoint an arbitration administrator was approved by the Arbitrage Court during the hearing of this case held on April 26, 2017.

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