Annual Report

2016

Approved by the General Shareholders Meeting of Milkiland N.V. on June 30, 2017

Contents

FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	146,758	191,447	288,725	340,973	287,013
Cost of sales	(125,592)	(163,793)	(233,837)	(268,810)	(209,737)
Change in fair value of biological assets	(52)	105	1,405	1,305	934
Gross profit	21,114	27,759	56,293	73,468	78,210
Operating income (expense), net	(26,609)	(54,638)	(56,950)	(54,276)	(56,669)
Operating profit	(5,495)	(26,879)	(657)	19,192	21,541
Net finance expense and other non-operating income (expense)	(31,229)	(46,195)	(73,991)	(5,472)	(6,172)
Profit (loss) before tax	(36,724)	(73,074)	(74,648)	13,720	15,369
Income tax (expense) benefit	(2,182)	(222)	2,233	(2,060)	(1,808)
Net profit (loss)	(38,906)	(73,296)	(72,415)	11,660	13,561
Other comprehensive income (loss)	9,879	14,643	(6,241)	(11,005)	-
Total comprehensive income	(29,027)	(58,653)	(78,656)	655	13,037
Net profit (loss) attributable to equity holders of the parent company	(38,804)	(72,807)	(71,835)	10,835	12,771
Weighted average common shares outstanding, thousand	31,250	31,250	31,250	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	(124)	(233)	(229.87)	34.67	40.87

Consolidated balance sheet as at 31 December

EUR thousands	2016	2015	2014	2013	2012
Cash and cash equivalents	1,044	907	10,431	13,056	23,850
Trade and other receivables	20,042	19,506	50,615	62,088	48,236
Inventories	12,878	12,193	17,779	29,763	25,487
Other current assets	8,269	7,985	12,809	24,338	16,374
Total current assets	42,233	40,591	91,634	129,245	113,947
PPE	98,763	117,787	135,401	187,974	189,129
Investment property	19,971	20,065	-	-	-
Deferred income tax assets	2,223	3,159	6,366	8,405	9,754
Other non-current assets	5,266	4,948	6,450	10,863	11,611
Total non-current assets	126,223	145,959	148,217	207,242	210,494
Total assets	168,456	186,550	239,851	336,487	324,441
Trade and other payables	43,054	24,659	22,535	26,948	15,120
Short-term loans and borrowings	87,293	103,410	96,389	79,284	50,526
Other current liabilities	4,201	2,469	2,447	2,510	2,104
Total current liabilities	134,548	130,538	121,371	108,742	67,750
Long-terms loans and borrowings	14,993	4,061	5,531	24,475	46,427
Deferred income tax liability	11,771	14,706	18,005	27,177	30,715
Other non-current liabilities	230	1,304	351	657	864
Total non-current liabilities	26,994	20,071	23,887	52,309	78,006
Total liabilities	161,542	150,609	145,258	161,051	145,756
Share capital	3,125	3,125	3,125	3,125	3,125
Revaluation and other reserves	83,598	79,902	71,344	79,162	94,474
Retained earnings	(80,918)	(48,377)	17,676	88,050	74,702
Total equity attributable to equity holders of the parent company	5,805	34,650	92,145	170,337	172,301
Non-controlling interests	1,109	1,291	2,448	5,099	6,384
Total equity	6,914	35,941	94,593	175,436	178,685
Total liabilities and equity	168,456	186,550	239,851	336,487	324,441

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

EUR thousands	2016	2015	2014	2013	2012
EBITDA	5,443	9,852	17,106	33,437	37,388
Net Debt	101,242	106,564	91,489	90,703	73,103
EBITDA Margin,%	4%	5%	6%	10%	13%
Net Profit Margin,%	-27%	-38%	-25%	3%	5%
ROE	-670.22%	-211.53%	-78.59%	6.85%	7.87%
ROA	-92%	-181%	-79%	9%	12%
Market Capitalization	14,184	10,780	10,851	94,190	110,837
Enterprise Value (EV)	116,535	118,635	104,788	189,992	190,324
EV / EBITDA	21.41	12.04	6.13	5.68	5.09
EV / SALES	0.79	0.62	0.36	0.56	0.66
Net Debt / Equity	14.64	2.96	0.97	0.52	0.41
Net Debt / EBITDA	18.60	10.82	5.35	2.71	1.96
Net Debt / Sales	0.69	0.56	0.32	0.27	0.25
Total Debt Ratio	0.96	0.81	0.61	0.48	0.45
Debt / Equity	23.36	4.19	1.54	0.92	0.82
Current Ratio	0.31	0.31	0.75	1.19	1.68
Quick Ratio	0.22	0.22	0.61	0.91	1.31
P/E	(0.28)	(0.15)	(0.15)	8.69	8.68
EPS	(124.17)	(232.98)	(229.87)	34.67	40.87

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 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,

Milkiland's management believes that the year 2016 has to be considered as a turning point for the Group's business, as well as for the economies of Ukraine and Russia, our core markets. For 3 last years, the Group, as an international business, was overcoming the challenges triggered by full-scale economic crisis in these countries, closure of the access to our traditional regional export markets. The most important of them were related to extensive devaluation of the local currencies in Ukraine and Russia imposed the pressure on the Group's revenues in EUR terms, as well as bad shape of consumer markets there.

Turning the situation to more positive direction, the last year became a period, when first signs of macroeconomic stabilisation became evident. In particular, real GDP of Ukraine in 2016 grew by 2.3% y-o-y, while Russian GDP remained practically flat (-0.2% y-o-y). The inflation rate in Ukraine and Russia in 2016 stood at 12.3% and 7.3% in comparison with 43.3% and 15.5% in 2015, respectively. More importantly, the devaluation pressure on Ukrainian hryvnya and Russian rouble started to ease. In particular, first of these currencies devalued by 16.8%, second – by c. 9.5% on average in the year 2016 in comparison with c. 53.8% and c.33.4% on average devaluation in 2015, respectively.

Sadly, the consumers in Ukraine and Russia in the last year, as we believe, temporarily remained out of the above-mentioned positive trends. The real income of the Ukrainian population was flat (0.3% of growth y-o-y), Russians even faced a decline of this rate by 4.9% in comparison with 2015, thus triggering the further stagnation of the consumer markets of these countries. This unfavourable situation was reinforced by weak prices at the global commodity market of dry milk products, which became to change by the year-end only.

As the result, the influence of the above-mentioned controversial factors led to c. 23% slash in the Group's revenues to c. EUR 147 million and EBITDA decrease by c. 45% to EUR 5.4 million.

Our take to address these challenges was to focus on efficiency of local operations, first of all on cost improvements, as well as searching for new markets for the Group.

In Ukraine the Group did fundamental job to decrease its running costs and overheads, with production base consolidated at best performing plants and searching for the buyers for several non-core farming assets were put up for sale in 2015.

The effective cost-cutting of the Ukrainian and other subsidiaries of the Group led to the noticeable contraction of the operational loss of the Group in 2016. Last year it decreased by four times to EUR 6.8 million.

In 2016, 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 in Russia. This resulted c. 20% growth of revenues and doubling the EBITDA of the company on y-o-y basis.

Positive steps were done on a way of searching of the new markets for the Group. Based at the qualification for export to China obtained in the last year, Milkiland Intermarket subsidiary concluded a first contract and started the supplies of dry milk products to the new, promising market of this country.

One of the important strategic issues for Milkiland to resolve in 2016 was a settlement of the relations with the Group's creditors, primarily based at signing of the respective loans restructuring agreements. As the major achievement on this way, the Restructuring agreement between the Group's subsidiaries and PJSC Credit Agricole Bank on restructuring of the loans in total amount of c. USD 14.5 million (c. EUR 13 million) was signed. The share of the respective indebtedness in the total debt portfolio of the Group as of 31 December 2015 stood at c. 12%.

In 2017, Milkiland plans to put an extensive efforts aimed on rebalancing the business and establishing of the new business model, better adapted to recent geo-political and economic developments. The restoration of the profitability of the Group's business was stated as a corner stone of this model.

To achieve this, we expect our Polish subsidiary Milkiland EU to contribute to the Group's top-line and EBITDA in 2017, our Russian subsidiaries to increase a profitability level based at selling of high value-added dairy products and further localisation of cheese production in the country, and our international business to raise its sales based at the trend of restoration of global commodity prices for dry milk products.

The Group's management remains confident to deliver a final stabilisation together with the restoration of the profitability of Milkiland's business to our shareholders in 2017.

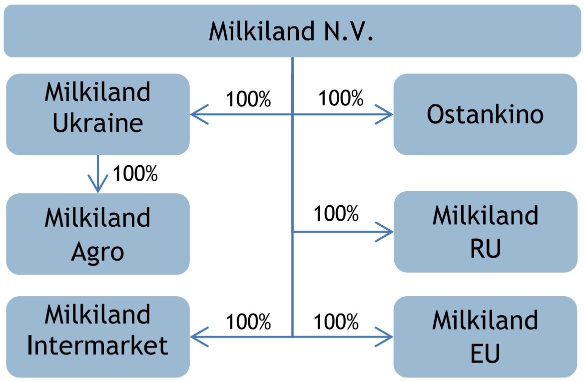
Oleg Rozhko,
Chairman of the Board

Anatoliy Yurkevych,
Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2016

The Group Overview

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



The Group's business in Ukraine (Milkiland Ukraine) includes milk processing (10 dairy plants), dairy farming (Milkiland Agro), and extensive milk collection system throughout the country. Milkiland Ukraine is the Company's major production division, collecting and processing about three quarters of the Group's milk, and producing a wide range of products that it sells both locally and in overseas markets. Milkiland Agro is a farming subsidiary of Milkiland Ukraine operating about 4,900 cattle livestock, including about 1,770 milking cows. The total land area cultivated by Milkiland Agro is about17,000 hectares.

The Group's Russian business consists of Ostankino Dairy Combine (Ostankino) and Milkiland RU. Ostankino is the Moscow-based producer of whole milk products ranking No. 3 in the local Moscow market, 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 February 2013, Milkiland RU finished acquisition of Rylsk Dairy Plant in Kursk region.

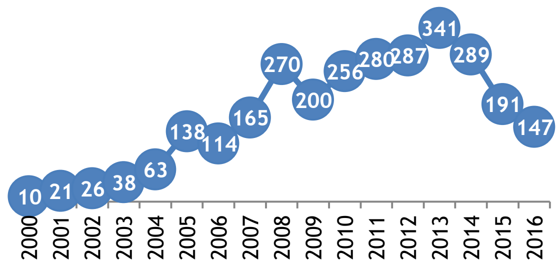
In 2012, the Group launched its EU business, having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. Ostrowia is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15 kt p.a.), curd, processed cheese and yoghurts.

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.

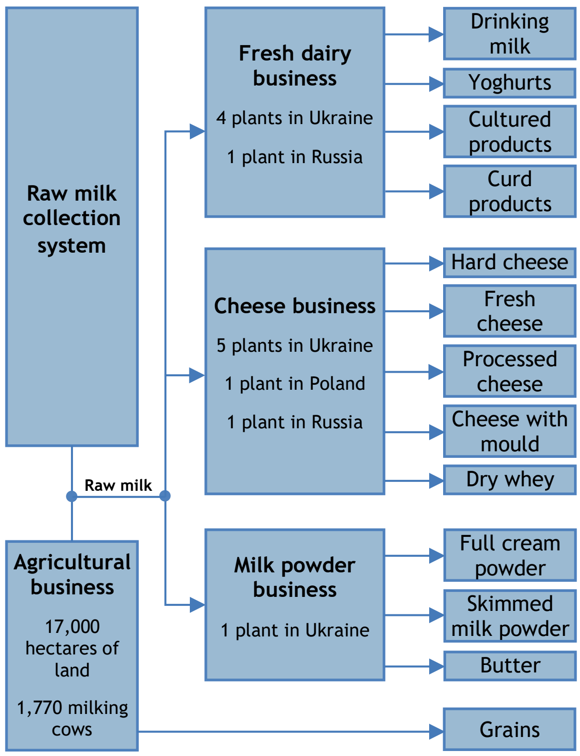
The Group's total annual milk processing capacity exceeds 1.0 million tons; product line consists of whole milk products, various types of cheese, butter, and dry milk products.

In 2016, Milkiland's consolidated revenues was EUR 147 million, representing c. 23% slide compared to 2015 caused by decreased output, operational currencies devaluation to euro and still stagnated consumer markets caused by lower disposale income of population in Russia and Ukraine.

Annual revenue, EUR million



Milkiland develops as universal milk processor with production assets diversified across CIS and EU, and with a significant level of vertical integration, to enable reliable access to raw milk - one of the core restraints for dairy producers in the CIS. 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, in 2012 the Group commenced construction of the modern 6,800 stalls dairy farm. The first section of new dairy farm was put in operation and filled by 1,700 milking cows. Since then, the number of milking cows operated by Milkiland Agro increased to 1,770 as of end-2016. In the last year, the in-house milk output declined by 7.4% on the back of the cut in the less productive cows headcount and improve of per cow milk yield by c. 5%. Milkiland Agro provided for c. 12% 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 long-term partnership with nation-wide milk cooperative Moloko-Kraina that has grown to provide c. 30% of the Group's raw milk intake in Ukraine in 2016.

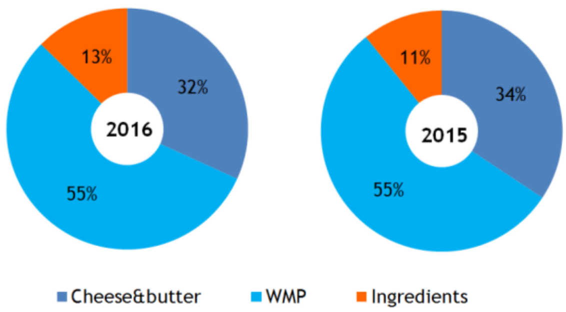
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines.

Whole milk dairy and cheese are Milkiland's core product segments providing together c.87% of the Group's revenues in 2016.

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 2016-2015



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. In 2012 Milkiland reinforced its positions in this segment by the usage of Ostrowia plant, which is equipped with state-of-the-art facilities for production of high value added products (WPC-80 and permeate).

Sales of milk powder products are mostly done on B2B basis, with food-processing companies being the Group's major customers. B2B sales comprised around 13% in the total revenue in 2016.

Milkiland's consumer products are marketed mostly under key brands Dobryana, Ostankinskoye, and Ostrowia.

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

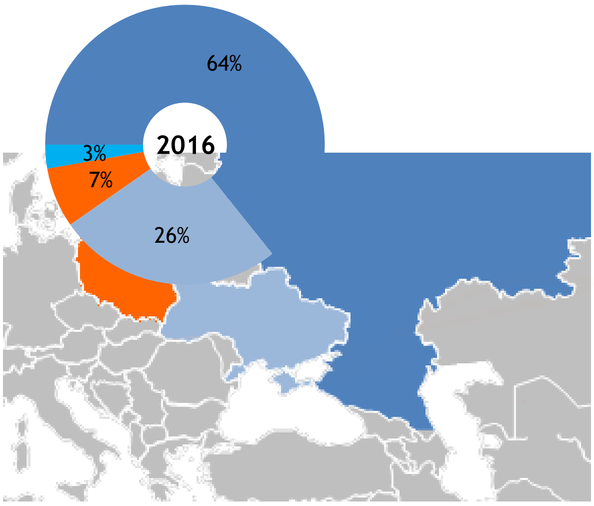
Ostankinskoye is a traditional brand for whole milk products produced by Ostankino Dairy Combine, well known by Moscow city and Russian consumers. The Group also markets its products in Russia under the economy brand 36 kopeyek.

Under Ostrowia brand, the Group markets products locally in Poland.

In 2016, all key brands of the Group were expended with new products, e.g. 8 new cheese, 5 butter and 7 new whole milk products introduced by Ostankino and Rylsk Dairy.

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.

Revenue breakdown by geography in 2016



In terms of geographical revenue breakdown, Russia is the largest market for Milkiland contributing about 64% to the Group's total consolidated revenue in 2016. In Russia, the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 26% of the Group's revenue and include all range of dairy products. Poland secured 7% of the Group's total revenue in 2016, while other countries account for 3%.

The geographical breakdown somewhat shifted in 2016 from Ukraine to Russia and 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

In 2016, global dairy markets continued to struggle in the face of weak import demand and excess supplies. According to the USDA estimations, world milk production during 2016 among major suppliers expanded by only 0.4% y-o-y; a sharp correction from the high 4% growth registered in 2014 and 1% growth registered in 2015. Low milk prices coupled with weather "El Nino" effect in major world milk producing regions restrain growth in milk output, which is forecast to increase modestly by less than 2% y-o-y in 2017 declining in Brazil, China and slightly declining both in Russia and Ukraine but offset by projected gains of milk production in the EU, Argentina and the United States.

Since structural changes in Russian economy began in the 1990's, the dairy sector has struggled for decades with insufficient financing for modernization and replacement of local dual purpose (milk and beef) cattle with highly productive dairy breeds. Investments in Russian milk production sector have been considered risky, with volatile milk prices, margins trending downward, a long payback period on investments, a history of inconsistent implementation of the state dairy programs, the increased use of vegetable oil substitutes by processors, dependence on highly consolidated retail chains, and declining demographics and lack of skilled work force in rural areas. Further, during the economic crisis of 2015-2016, low consumer demand for high margin dairy products depressed milk prices and producers' margins, which will result in further declines in cow inventories in 2017.

The milking herd in Russia is forecasted to decrease 3% y-o-y to 7.32 million head in 2017 due to low investment in cattle in the past two years. Because large farms improve per cow yields, milk production is forecast at 30.2 million tones, only 0.5% less than in 2016. Factory use grows to 19.5 million tons while fluid milk consumption declines, reflecting contrasting trends in commercial and backyard sectors. Higher dairy prices may ease the impact of uncertain state support. Private household still contribute large share in total raw milk supply in Russia, a 45% of total in 2016.The average cow yield improved by 4% y-o-y in 2016, to 5800 kg per year in Russia.

Russia's milk production totalled 30.4 million tons in 2016, down almost 0.7% y-o-y. Good harvests of feed crops and forage grasses in 2016 lessened some costs, and large commercial dairies improved per cow yields by more than 4% in 2016, which increased milk production by 1.8%, better than previously forecasted. The market remains favorable for domestic dairy processors as the counter-sanctions trade restrictions on significant western exporters have been extended until December 31, 2017.

Ukraine's 2016 milk output reached 10.4 million tons, down 1.9% y-o-y on the back of the same decline in milking cows herd while average yields remained unchanged y-o-y. Private households share in the industry remained high, at 76% of total milking cows herd in the country in 2016.

Raw milk production in Ukraine is expected to decrease further in 2017 due to lack of foreign markets for Ukrainian dairy products. Exports of almost all processed dairy products to Russia stopped in 2014 and are not expected to recommence. Ukraine will continue to export dried dairy products and butter to utilize excess milk supply. Industry's efficiency will be improving due to increased investments in industrial milk production. Domestic demand shifted toward the cheapest products and is expected to stabilize in 2017.

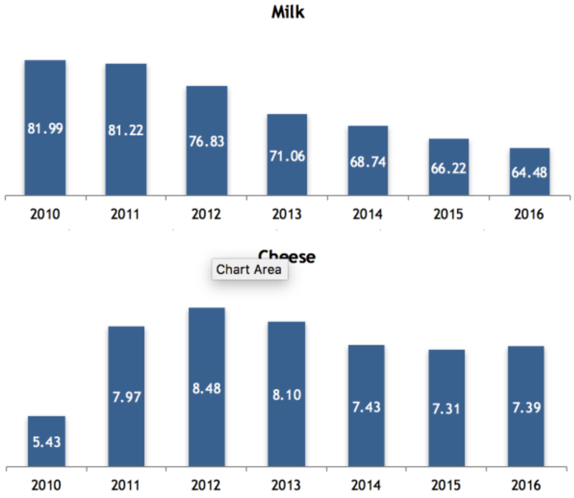
Milkiland defines its home market as former Soviet Union region, namely Russia and Ukraine. This is one of the largest food markets globally, ranking No.5 after China, EU, USA, and India, and a very dynamic one with strong growth fundamentals. Starting from 2013, upon launching of Ostrowia operations,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

From the macroeconomic perspective, 2016 became a period, when first signs of macroeconomic stabilisation became evident. In particular, real GDP of Ukraine in 2016 grew by 2.3% y-o-y, while Russian GDP remained practically flat (-0.2% y-o-y). The inflation rate in Ukraine and Russia in 2016 stood at 12.3% and 7.3% in comparison with 43.3% and 15.5% in 2015, respectively. The real income of the Ukrainian population was flat (0.3% of growth y-o-y), Russians even faced a decline of this rate by 4.9% in comparison with 2015, thus triggering the further stagnation of the consumer markets of these countries.

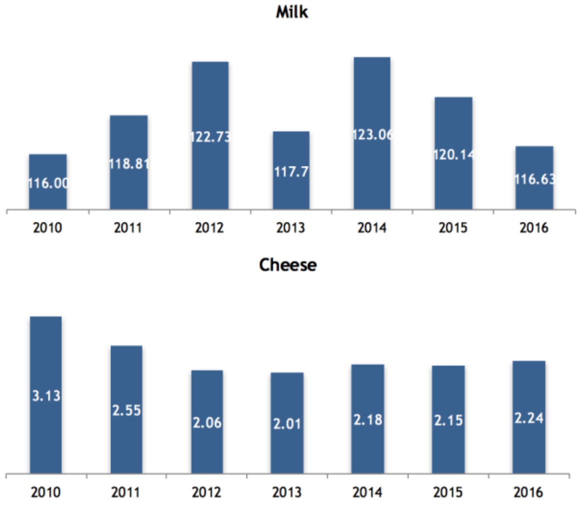
In Russia, the Dairy market is dominated by two categories, Cheese and Milk, which constitute over 60% of the Russian market by value. The third-largest product category, Yoghurt, accounts for another 20% of the market. After Russian authorities introduced a ban on dairy imports from the EU and Ukraine in mid-2014, per capita consumption of dairy products shrunk considerably limited by the supply and continued decline throughout 2015.

Per capita consumption of dairy products in Russia, kg



Source: http://www.clal.it

Per capita consumption of dairy products in Ukraine, kg



Source: http://www.clal.it

In Ukraine, drinking milk represents about half of the total dairy products consumption. Only 50% of total raw milk produced went into processing in 2016. Cheese and butter represent another 28% of the total dairy consumption. In 2016, following a considerable drop in the consumer purchasing power, consumers continued switch to cheaper locally produced varieties, while the general dairy consumption remained stable in Ukraine.

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, full cream powder, dry whey, 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.

From the market perspective, 2016 was a challenging year for the Ukrainian whole milk producers. Declining consumer purchasing power and a conflict in the Eastern Ukraine, as well as annexation of Crimea in spring 2014 led to a continuous reduction in demand for dairy products throughout 2015-16. However, the first signs of recovery were seen on the Ukrainian dairy products market last year. Industry statistics showed that Ukrainian market for whole milk products increased modestly by 0.7% y-o-y to 0.94 million tons in 2016.

On the supply side, raw milk prices grew by c. 26% y-o-y in Hryvnia terms as a response to higher input prices correlated with international soft commodities markets caused by the Ukrainian Hryvnia devaluation. The unusually high demand for raw milk in autumn 2016 cased the price for raw material skyrocket over 50% and amounted 7,187 UAH per ton of milk net of VAT in December 2016.

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.

Thus, Russia's overall whole milk product consumption grew 2% y-o-y in 2016. Still, the decline in disposable income caused consumer diet shift towards comparably lower priced whole milk products and resulted in declined consumption of butter (-4.5% y-o-y) and skimmed milk powder (-5% y-o-y) in 2016. Cheese consumption recovered slightly in 2016 (+2% y-o-y) to 0.6 million tons. Industry statistics reported Russian whole milk products output grew 1.5% y-o-y to about 11.9 million tons in 2016. Even with trade barriers imposed Russia remained the importer of whole milk products in 2016. In raw milk equivalent the country still imported 40% of overall dairy products in 2016. Belarus delivered 93% of overall whole milk products import to Russia in 2016 while overall country's whole milk products import continued declining (-8% y-o-y) in 2016.

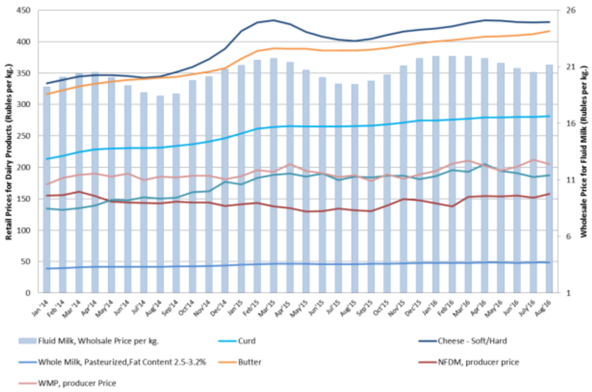
On the supply side, prices for raw milk in Russia grew on average by over 6% y-o-y in Rouble terms while the average price for WMP increased by 10-12% y-o-y.

Russian embargo also created additional pressure on the local EU market where the raw milk price dropped since late 2014 as additional volumes of milk became available for processing. However, strict subsidizing and production volume controls in EU-countries finally resulted in industry restructuring and turned raw milk price trend into positive territory in 2016. In Poland, the average effective raw milk price grew 8% throughout 2016 and continued increasing 19% in first quarter 2017.

The Group's total 2016 whole-milk products volume sales decreased by 23%, mainly on the back of decline of those products sales in Ukraine (-14% y-o-y) and Russia (-25% y-o-y).

The Group's subsidiaries in Russia benefitted from import substitution, retained its strong market share in the WMP segment. Ostankino accounted for over 2% of WMP segment sales and proved its TOP-10 player position in this segment of Russian dairy market with the solid presence in national retail chains. Ostankino Dairy Combine is also No.3 player in Moscow city market, the largest regional market consuming over 1.5 million tons of fresh dairy annually.

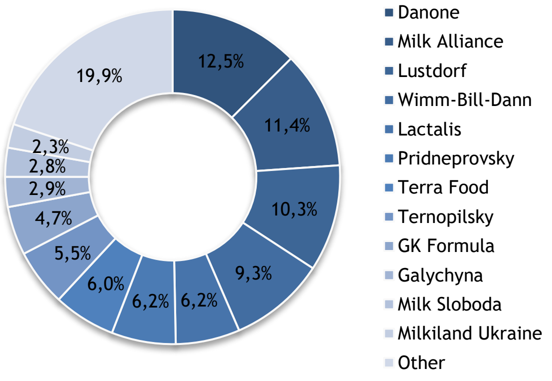
Russia's commodity prices for raw milk and consumer prices for dairy products in 2014-16



Source: Rosstat

In Ukraine, the Group retained its positions of a TOP-12 player in the segment with the market share of 2.3% (down 0.4pp y-o-y) in 2016.

Ukraine's whole milk products market by company in 2016, %



Because of a considerable devaluation of the Group's operational currencies, the Group's total revenues in the fresh dairy segment declined by c. 22% and amounted to EUR 81.6 million in 2016. The segment's EBITDA decreased to EUR 1.7 million compared to EUR 8.6 million or by 81% on y-o-y basis. The segment's EBITDA margin dropped by 6.2pp y-o-y to 2.0% for the year.

The share of fresh dairy in the Group's consolidated revenues stood at 56%, 1 pp. more than in 2015.

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

According to the Company's estimations, up to 40% of fresh dairy consumption in its core markets still falls to home-made products. Such informal consumption will diminish in favour of industrially processed dairy, thus being significant growth driver in the Group's markets.

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

Cheese and Butter Segment

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

In 2016, cheese market in Russia continued to be constrained by supply, as trade restrictions imposed by government on the EU and Ukrainian producers cut imports, while local cheese production however was reviving. As a result, the total Russian cheese consumption increased by c. 1% y-o-y to approximately 1.06 million tons (*source: USDA estimations*) and is expected to remain at this level in 2017 despite expected price growth on dairy products in Russia. Cheese production was flat y-o-y at 845,000 tons but the short availability of quality drinking milk has been a constraining factor. Multiple trends from the current market will likely remain in 2017, including weak consumer demand for premium high-margin cheese and strong competition from non-banned exporters in the market. Additionally, higher prices on quality raw milk suitable for cheese production are expected to constrain the growth of cheese sector. Stable supplies of recognizable cheese and tvorog brands from reputable producers and further expansion of private labels will contribute to the anticipated stabilization of cheese consumption in 2017.

Absent competition from banned EU exporters, Russian market remains favourable for domestic cheese producers. In 2017, reputable large cheesemakers will likely maintain Russian cheese production at 2016 levels; however, many cheese making operations that economized on quality to supply the necessary quantity to the market in 2014-2015 will reduce or stop production due to increased competition among domestic producers in 2017. Stable prices for cheese in 2016 suggested that the market is close to saturation, in particular in the economy segment. Because the market does not need low quality products in the amounts supplied in 2014-2015, a minor decline of 0.8% of total cheese supply in 2017 is anticipated in Russia. Further growth may be seen after significant recovery of the purchasing power of households, when the consumer interest shifts back to the premium and middle product categories. The macroeconomic forecasts available to date do not anticipate such disposable income in 2017, so the market likely will remain balanced with cheese supplies comparable to 2016.

As Rosstat reported in September 2016, the average price for cheese in Russia increased 3% in Rouble terms since January 2016 and was c. 7% higher than in September 2015. Prices on 'tvorog', a less expensive traditional fermented milk product, which was a dairy product of choice for Russian consumers during the crisis, also increased c.7% year-on-year. The cheese market is balancing near its saturation, and manufacturers are switching their focus to quality of their products and efficiency of operations to maintain sales.

Despite stabilization of cheese supplies in the medium and economy market segments in Russia, there is no adequate replacement of premium imported cheeses. Local producers were not able to fill in the segment of premium cheeses, and consumers continue to prefer the less expensive grocery items within product groups. As a result the middle price range varieties of cheese remain the bestselling hard and semi-hard cheeses and are increasing their share in the market. "Rossiysky" is the most popular variety of cheese, with over 60% share of total consumption.

Imports of cheese to Russia covered primarily by Belarus (88% of total) continued declining in 2016 by 2% y-o-y to 200,000 tons and accounted for c. 25% of total consumption. All the key cheese exporters, who could influence the Russian cheese market, remain excluded from competition until the end of 2017 due to the extended counter-sanctions ban. Assuming the current restrictions remain unchanged, Belarus cheese exporters will remain the major supplier and will likely maintain the volume of cheese and curd shipments to Russia.

Once very attractive for Ukrainian processors due to availability of the Russian market, the hard cheese market is now hardly one third of what it used to be in Ukraine. Producers concentrated on the domestic market and few remaining traditional markets. Being relatively high value added products, domestic cheese consumption suffered from the economic crisis developments of 2013- 16. Domestic consumers were not able to sustain the same consumption levels and cheese production continued to decline.

In Ukraine, per capita cheese consumption recovered in 2016 (+4% y-o-y). The total domestic production of hard cheese increased by c.1% y-o-y to about 115,250 tons in 2016 while processed cheese market sales declined by 5% y-o-y to over 41,000 tons, unlike the trend in Russia.

Exports of cheese from Ukraine totaled only c. 8,050 tons in 2015, further down 26% y-o-y due to Russian embargo. Ukraine's exports of cheese kept declining in both 2015-16 as access to the major markets either disappeared (Russia) or became complicated (Central Asia and other FSU countries). No markets were found to replace

Russia as a major consumer of Ukrainian cheese. Imports of hard cheese from Poland for the middle income market segment, and Germany, Netherlands and Italy for upper income consumers increased significantly by 31% y-o-y to total 7,060 tons in 2016. In 2016, Poland remained the major exporter with almost 50% market share as the hard cheese market started to recover.

Closure of the Russian market increased local competition in Ukraine but did not put pressure on prices in 2015 as producers were compensating for the increased input costs (raw milk, fuel and processing). Thus, the average cheese price in Ukraine boosted 29% y-o-y in Hryvnia terms in 2016.

In 2016, the Group experienced an overall drop in the cheese sales in volume terms by c. 20% on y-o-y basis that was mainly triggered by c. 22% decline in cheese sales volumes in Russia's OMK but drastic 49% drop in cheese production in Ukraine due to trade restrictions negative effect. In order partly to offset them, the Group concentrated on further localization of cheese production in this country. As the result, the Group's Russian subsidiary Milkiland RU trough Rylsk Syrodel division of LLC "Kursk milk" managed to increase the volume of cheese production by 53% on y-o-y basis to c. 5.3 thousand tons. The Group remains in Top-5 cheese producers in Ukraine and in Top-10 cheese producers in Russia in 2016.

Due to the current import ban of dairy products from a number of Western suppliers but quite significant illegal imports from FSU countries, Russia's imports of butter was estimated at 95,000 tons (+12% y-o-y). Moscow official statistics anticipates 245,000 tons butter production in 2016, down 6% y-o-y from 2015 butter production level. The decrease of butter production is largely a negative consequence of the increased use of milk fat substitutes in dairy products.

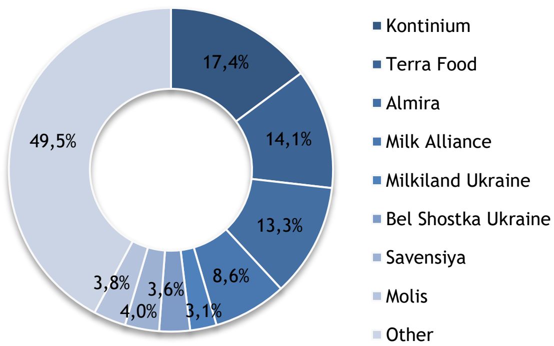
The trade restrictions of 2014 resulted in shortages of some dairy products and temporary growth of butter prices followed by a decline due to weakened consumer demand in 2015 and first half of 2016. Meanwhile, the presence of less expensive dairy products with palm oil dramatically increased in the market.

Increasing world prices limited butter imports from other sources to Russia, and the sudden lack of availability caused a spike in butter prices in August-September 2016 in Russia. This price spike indicates that butter supplies in August 2016 declined below the market sufficiency level; however, domestic production will not likely rise to meet demand as long as other products provide higher profit margins. Because consumers remain price sensitive in the current economy, high prices will most likely slow recovery of consumer demand for butter.

Following butter production increase in 2016 Ukraine had no choice but to increase butter exports. No domestic market exists for this additional supply. New markets in Turkey, Morocco and Egypt were discovered. After some decline in 2016, exports of butter are expected to stabilize in 2017.

Ukraine's domestic butter sales declined by 2% y-o-y in 2016 on the back of lower exports and weak demand. Ukraine's average price for butter boosted 54% y-o-y in Hryvnia terms in 2016.

Ukraine's cheese market by company in 2016, %



In 2016, Milkiland's cheese & butter segment revenues declined by 29% y-o-y to EUR 46.7 million depressed by national currency devaluation on both key markets. The segment's EBITDA stood at c. EUR 3.8 million, representing the only segment to improve profitability and perform a 12% annual increase in EBITDA in 2016. EBITDA margin improved from 5.1% in 2015 to 8.1% in 2016 due to bigger contribution of more profitable Russian market.

The Group's management will continue putting their efforts on the improving profitability of the cheese&butter segment by focusing on local markets and gaining a market share on the profitable Russian market. In Ukraine Milkiland offers higher value-added mould and ripe cheese to substitute the imported expensive cheese, which became less affordable for the Ukrainian consumers after the sharp devaluation.

Polish Ostrowia will focus on the local Polish market until the Russian market is closed for the EU producers.

Ingredients Segment

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

Although the pace of global increasing milk production is forecast to slow, prices for such dairy products as skimmed milk powder (SMP) and whole milk powder (WMP) are expected to remain relatively weak. These products face strong headwinds due to the continuation of the Russian ban on imports of dairy products, the strong dollar, and weak import demand from China. Absent a change in these variables or the onset of unfavourable weather, prices did improve significantly in 2016 and are expected to show same dynamics in 2017.

In Russia, without state support in 2016, local producers of milk powders had no incentives to increase output because prices for milk powders were growing slower than producers' expenses. According to Rosstat, in 2016 dairy processors in Russia decreased production of milk powders (WMP and SMP) by 5% y-o-y. The exports of both commodities will remain insignificant as the Russian produces will unlikely be able to offer competitive export prices for mil powders to potential importers.

Globally, the demand for commodity dairy products is rising, as East Asian countries are actively introducing dairy diet to their population, though cannot develop sufficient local supply due to unfavourable conditions for dairy farming. However, in 2016, a slowdown of the Chinese economy led to a lower demand and decreased purchases of dairy products.

The global downturn in dairy markets resulted in a margin squeeze for many international producers. Although, the devaluation of the national currency generally increased the profitability of export sales for Ukraine, continuous stagnation of prices for international dry milk products for two years in a row depressed exports of such from Ukraine in 2015 showing weak signs of recovery in 2016 in line with global SMP price rise.

In 2016, the Group decreased its sales of ingredients in volume and value terms.

As the result, Milkiland's revenues in this segment declined by 10% and amounted to EUR 18.5 million. Ingredients sales reported profitability of EUR 1.0 million of EBITDA, representing 5.5% EBITDA margin (up from negative EUR 0.5 million and -2.3% respectively in 2015).

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2016 and 2015 in thousands Euro.

Selected financial data

	2016	2015
I. Revenues	146,758	191,447
II. Operating profit	(5,495)	(26,879)
III. Profit before tax	(36,724)	(73,074)
IV. Net profit	(38,906)	(73,296)
V. Cash flows provided by operating activities	14,454	(5,849)
VI. Cash flows used in investing activities	(7,229)	(3,203)
VII. Cash flows provided by financing activities	(7,102)	546
VIII. Total net cash flow	123	(8,506)
IX. Total assets	168,456	186,550
X. Current liabilities	134,548	130,538
XI. Non-current liabilities	26,994	20,071
XII. Share capital	3,125	3,125
XIII. Total equity	6,914	35,941
XIV. Weighted average number of shares	31,250	31,250
XV. Profit (loss) per ordinary share, EUR cents	(124.17)	(232.98)

Income Statement

Summary statement of comprehensive income, '000 EUR

	2016	2015
Revenue	146,758	191,447
Change in fair value of biological assets	(52)	105
Cost of sales	(125,592)	(163,793)
Gross profit	21,114	27,759
Operating income (expense), net	(26,609)	(54,638)
Operating profit	(5,495)	(26,879)
Net finance expense and other non-operating expense	(31,229)	(46,195)
Profit before tax	(36,724)	(73,074)
Income tax expense	(2,182)	(222)
Net profit	**(38,906)**	**(73,296)**
Other comprehensive loss	9,879	14,643
Total comprehensive income	**(29,027)**	**(58,653)**
Net profit attributable to equity holders of the parent company	**(38,804)**	**(72,807)**
Weighted average number of shares (in millions), as of December 31	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**(124.17)**	**(232.98)**

Revenue

The challenges triggered by economic crisis in the Group's key operational markets and closure of the access to traditional regional export markets continued putting negative pressure on the Group's revenues in 2016. The most important of them were related to extensive devaluation of the local currencies in Ukraine and Russia imposed the pressure on the Group's revenues in EUR terms, as well as bad shape of consumer markets there. As the result, the influence of the above-mentioned controversial factors led to c. 23% slash in the Group's revenues to c. EUR 147 million.

The Group focused on development of sales on key operational markets, in particular responding to strong local demand for whole milk products in Russia. Thus, the share of whole milk products grew 1pp y-o-y to 56% of total Milkiland's revenues in 2016.

The table below sets forth an overview of the revenue generated by the Group in 2015 and 2016 by product group.

Breakdown of the Group's consolidated revenue by product in 2016-2015

	2016		2015		2016 vs. 2015	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	46,660	32%	65,702	34%	(19,042)	-29%
Whole milk products	81,567	56%	105,094	55%	(23,527)	-22%
Ingredients and other	18,531	12.6%	20,651	10.8%	-2,120	-10%
Total	**146,758**	100.0%	**191,447**	100.0%	**(44,689)**	-23.3%

Sales of cheese and butter decreased by 29% y-o-y to EUR 46.7 million, due to the closure of the Russian market in mid-2014. 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. This led to reorientation of the cheese sales to local markets with lower margins. In 2016, 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 in Russia. This resulted in 21% growth of cheese revenues of the Group in Russia. The Group's cheese volume sales in Ukraine contracted by c. 40% in 2016.

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

Sales of whole milk products declined 22% y-o-y to EUR 81.6 million on a back of local currency devaluation in Russia and Ukraine, and represented 56% of the total consolidated revenue in 2016 vs. approx. 42% in 2012. In terms of volume sales, segment decreased by 23%, with Ostankino contributing 25% y-o-y to decline while Milkiland Ukraine segment volume sales fell 14% y-o-y in 2016.

Ostankino, the Group's main subsidiary in Russia, experienced decline in sales in local currencies terms by 15% y-o-y in RUB terms (23% y-o-y in EUR terms due to RUB devaluation effect). This facility holds the position of main revenue contributor of the Group in 2016, delivering over 60% of sales in value terms. The Group's subsidiaries in Ukraine jointly showed the best profitability result among others with 2016 EBITDA margin of 7.4% (+1.4pp y-o-y).

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

Sales in the Ingredients segment contracted by 10% to EUR 18.5 million due to still weak demand on the international markets. Global prices for these products, in particular, dry milk powder and skimmed milk powder, grew 8% y-o-y on average throughout 2016, however selling volumes were not enough to result in segment's overall revenue growth.

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

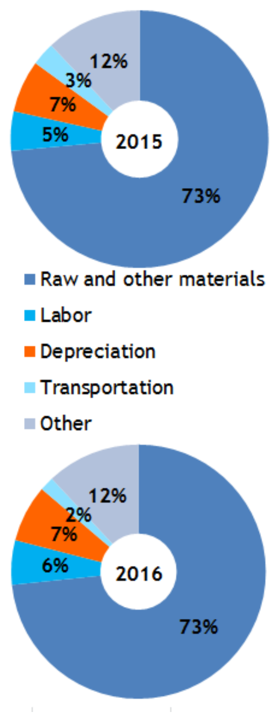
Cost of sales

The Group's consolidated cost of sales decreased 23% to EUR 125.6 million; the main driver was 24%-deflated raw materials costs (from EUR 120.5 million to EUR 92.1 million), due to devaluated key operational currencies.

While farm-gate prices in both Russia and Ukraine grew by 6% and 26% in local currency terms respectively, resulted in a c.8% y-o-y increase in euro terms in the average effective price for raw milk. For more information on milk markets, refer section *Key Products, Production and Sales*.

In 2016, 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 supported previously by the Group). In-house farming facilities focused on better per cow yields to cut the costs.

The Group's cost of sales structure in 2015-2016



In 2016, labour costs dropped by 12% to EUR 7.1 million due to the Russian rouble and Ukrainian Hryvnia devaluation, as well as cost cutting at production subsidiaries affected by the cheese exports ban. Social insurance contributions decreased accordingly (-35% y-o-y). Transportation costs were lower due to the same reasons. Decreased inventories of finished goods and work in progress at production facilities resulted in EUR 1.3 million in the costs of sales.

Breakdown of the Group's cost of sales in 2016-2015, '000 EUR

	2016		2015	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	92,107	62.8%	120,468	62.9%
Wages and salaries	7,101	4.8%	8,089	4.2%
Depreciation	9,138	6.2%	10,739	5.6%
Transportation costs	2,263	1.5%	4,784	2.5%
Gas	3,088	2.1%	4,556	2.4%
Other	11,895	8.1%	15,157	7.9%
Total	125,592	85.6%	163,793	85.6%

Gross profit

As a result of decreasing top line and alike decrease in the costs of sales, Milkiland's gross profit decreased by 24% y-o-y to EUR 21.1 million while gross profit margin remained stable at 14.4% in 2016 compared to 14.5% in 2015.

Selling and distribution expense

The Group's selling and distribution expenses decreased by 17% from EUR 15.8 million in 2015 to EUR 13.1 million in 2016 and represented 8.9% in the consolidated revenue in 2016 vs. 8.3% in 2015. Transportation expenses decreased slower than other selling and distribution expenses due to a rise in fuel prices denominated in the operating currencies. At the same time, labour-intensive costs decreased significantly at about 30% y-o-y implying the Group implemented strict cost optimization. Security and other services declined significantly, however marketing and advertising expenses showed the less decline, providing for investment in sales volume growth for the future.

Administrative expense

The Group's administrative expenses decreased from EUR 14.5 million in 2015 to EUR 13.0 million in 2016, representing 8.9% in the consolidated revenue in 2016 vs. 7.6% in 2015. A 35% decrease in labour costs is associated with the operational currencies devaluation. Social insurance contributions dropped alike the wages and salaries (-35% y-o-y).

Other expenses, net

In 2016, the Group received EUR 0.5 million other operating expense compared to EUR 24.4 million other expenses in 2015. There was no increase in provision and write off of trade and other accounts receivable due to impaired debts and loss on received investment property (EUR 23.3 million in 2015).

Operating profit and EBITDA

Despite optimization in operating costs, lower gross profit resulted in the Group's operating loss of EUR 5.5 million and in a 45% decrease in the consolidated EBITDA to EUR 5.4 million. EBITDA margin was depressed from 5.1% to 3.7% in 2016.

Finance expense

In 2016, financial expense related to bank borrowings declined 33% as a result of a slight decrease in debt volume (-5% y-o-y), as well as restructuring in loan portfolio and discounting of loans. The devaluation of Ukrainian Hryvnia and Russian rouble against euro and US dollar resulted in a non-cash foreign exchange loss of EUR 22.2 million in 2016, down from EUR 32.8 million in 2015.

Profit before tax and Profit for the year

As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 36.7 million. Net loss for 2016 accounted for EUR 38.9 million.

Financial Position

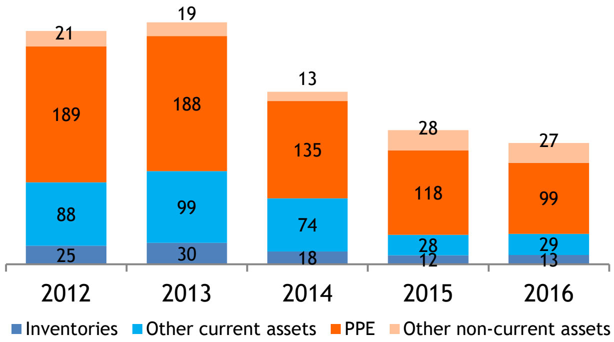
Summary balance sheet as at December 31, '000 EUR

	2016	2015
Cash and cash equivalents	1,044	907
Trade and other receivables	20,042	19,506
Inventories	12,878	12,193
Current biological assets	1,096	1,621
Current income tax assets	434	947
Other taxes receivable	6,739	5,417
Total current assets	***42,233***	***40,591***
Goodwill	1,558	1,746
PPE	98,763	117,787
Investment property	19,971	20,065
Non-current biological assets	1,383	1,507
Other intangible assets	2,325	1,695
Deferred income tax assets	2,223	3,159
Total non-current assets	***126,223***	***145,959***
Total assets	**168,456**	**186,550**
Trade and other payables	43,054	24,659
Current income tax liabilities	71	351
Other taxes payable	4,130	2,118
Short-term loans and borrowings	87,293	103,410
Total current liabilities	***134,548***	***130,538***
Long-term loans and borrowings	14,993	4,061
Deferred income tax liability	11,771	14,706
Other non-current liabilities	230	1,304
Total non-current liabilities	***26,994***	***20,071***
Total liabilities	**161,542**	**150,609**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	69,208	79,866
Currency translation reserve	(34,297)	(48,651)
Retained earnings	(80,918)	(48,377)
Total equity attributable to equity holders of the parent company	***5,805***	***34,650***
Non-controlling interests	1,109	1,291
Total equity	**6,914**	**35,941**
Total liabilities and equity	**168,456**	**186,550**

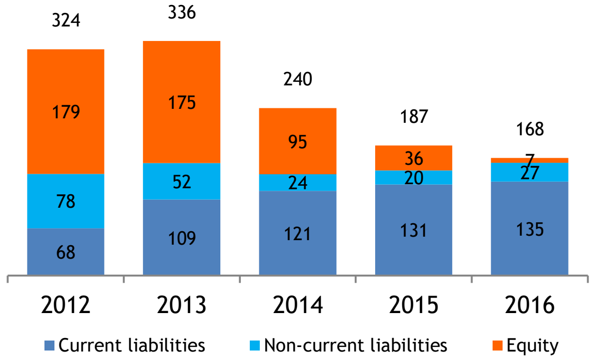
Capital structure and solvency analysis information

	2016	2015
Total debt ratio	0.96	0.81
Debt to equity ratio	23.36	4.19
Net debt/EBITDA	18.60	10.82
Net debt/sales	0.69	0.56

Assets structure in 2012-2016, EUR million



Equity and liabilities of the Group in 2012-2016, EUR million



Assets

The Group's total assets decreased by 10% from EUR 186.6 million as of December 31, 2015, to EUR 168.5 million as of December 31, 2016.

During 2016 cash and cash equivalents increased from EUR 0.9 million to EUR 1.0 million (+15% y-o-y).

The Group's euro-denominated inventories remained stable and slightly increased as of end-2016 at EUR 12.9 million (+6% y-o-y). Accounts receivable decreased by 9%, to EUR 13.4 million, over the year. Total trade accounts receivable increased by 3% to EUR 20.0 million due to increase in other receivables.

Other taxes receivable comprise mainly export VAT receivable from the Ukrainian government. In 2016, VAT receivable increased by 19% thanks to an increase in export sales.

Non-current assets decreased by 14% to EUR 126.2 million. A natural decline due to the devaluation of Ukrainian Hryvnia and Russian rouble was offset by one-off add-on from investment property of EUR 20.0 million in 2016.

Current assets represented 25% of the total assets, non-current assets, 75% (78% as on December 31, 2015).

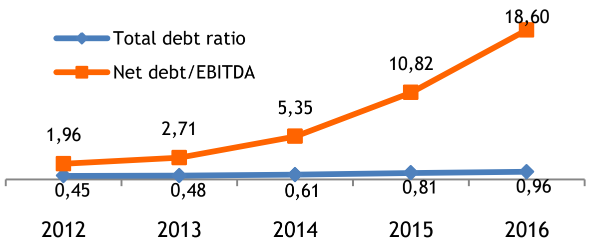
Liabilities and equity

The Group's total liabilities increased by 7% over 2016, from EUR 150.6 million to EUR 161.5 million as of December 31, 2016. Current liabilities grew 3% to EUR 134.5 million, while non-current liabilities increased by 34% to EUR 27.0 million. Such changes in liabilities breakdown were mainly due to reclassification of some part of long-term loans and borrowings into short-term loans, which are due within less than 12 months.

Net debt of the Group stood at EUR 101.2 million as of December 31, 2016. Total Debt Ratio constituted 0.96 vs. 0.81 in 2015. Net Debt/EBITDA ratio increased from 10.82 to 18.60 due to increased indebtedness and lower euro-denominated EBITDA.

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 2012-2016



Currency translation reserve declined over the reported year (EUR -34.3 million on December 31, 2016 vs. EUR -48.7 a year before).

However, the EUR 32.5 million losses in retained earnings contributed to c. 83% decrease in the Group's total equity. This decrease in retained earnings is mainly associated with the Group's foreign exchange loss due to operational currencies devaluation.

Current liabilities represented 80% of the total equity and liabilities, non-current liabilities 16%, and equity 3% as of December 31, 2016 (70%, 11%, and 19% respectively in 2015).

Decrease in the Group's current assets and increase in short-term loans and borrowings led to a working capital deficit of EUR 92.3 million. At the same time, the Group's cash ratio remained stable at 0.01 in 2016.

The Group's current and quick ratios remained stable, at 0.31 and 0.22 respectively.

Over 2016 the Group's average operating cycle had changed through increase in average payment period from 53 to 98 days in 2016.

Balance sheet items and liquidity analysis

Ratios	Definitions	2016	2015
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	31	29
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	49	67
Average payment period, days	Average trade payables to cost of sales times number of days in the period	98	53
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	-18	43
Working capital, '000 EUR	Current assets less current liabilities	(92,315)	(89,947)
Current ratio	Current assets to current liabilities	0.31	0.31
Quick ratio	Current assets less inventories to current liabilities	0.22	0.22
Cash ratio	Cash and cash equivalents to current liabilities	0.01	0.01
ROE, %		-670%	-212%
ROA, %		-92%	-181%

Summary cash flow statement

	2016	2015
Cash flow from operating activities:		
Operating cash flows before working capital changes	4,938	10,527
Changes in assets and liabilities, net	10,625	(5,072)
Cash provided by (used in) operations:	(6,023)	(11,304)
Net cash from operating activity	**9,540**	**(5,849)**
Investing activities:		
Proceeds from sale of property, plant and equipment	131	48
Acquisition of property, plant and equipment	(1,653)	(3,261)
Acquisition of subsidiaries, net of cash acquired	(793)	10
Increase of other non-current assets	-	-
Net cash from investment activity	**(2,315)**	**(3,203)**
Financing activities:		
Acquisition of non-controlling interest	-	-
Commission paid	(23)	(42)
Dividends paid	-	-
Proceeds from borrowings	19,495	37,083
Repayment of borrowings	(26,574)	(36,495)
Net cash from financial activity	**(7,102)**	**546**
Net increase in cash	**123**	**(8,506)**
Effect of exchange rate changes on cash and cash equivalents	14	(1,018)
Cash at beginning of the period	907	10,431
Cash at the end of the period	1,044	907

Net cash at the end of the period increased by 15% to EUR 1.0 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 debt and equity issuances in the capital markets.

Key Investments in 2016 and Sources of their Financing

In 2016, the Group's key investments were addressed mainly to maintenance of all its assets in Ukraine, Russia and Poland and also partially to completion of modernization of its Russian subsidiary Syrodel in order to continue the localization of cheese production in Russia.

The following table represents the Group's key investments in 2012 through 2016 by type.

Key investments in 2012 through 2016, thousands of Euros

	2016	2015	2014	2013	2012
Property, plant and equipment	1,653	3,261	6,275	20,918	34,548
Acquisition of associates and subsidiaries	793	-10	0	488	14,146
Total investments	**2,315**	**3,251**	**6,275**	**21,406**	**48,694**

Last year's investments were financed mainly from operational cash flows of the Group.

Investment Plans for 2016 and Sources of their Financing

The Group's investment budget for 2016 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 1 million.

For more information, refer to section *Fulfilment of Strategy in 2016 and Outlook for 2017*.

In 2017, the Group intends to finance its investment program mainly from its operational cash flows with partial debt financing.

Basis of Preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

Shareholder Structure

As of December 31, 2015, 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.

As of December 31, 2016, Milkiland N.V. does not possess any information regarding changes in the presented Shareholder Structure during last year.

Shareholder structure of Milkiland N.V. as of December 31, 2016

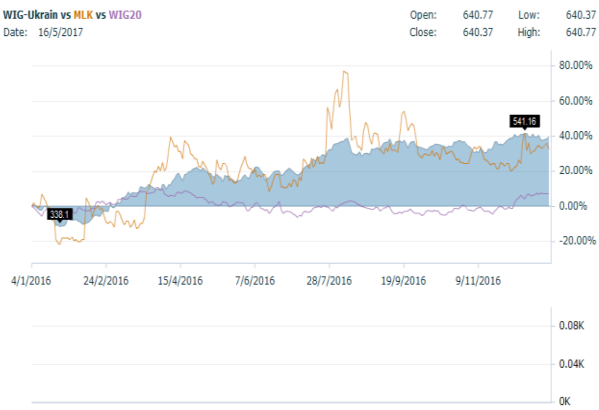
Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,973,588	73.52%	22,973,588	73.52%
R-Assets Cooperatief U.A.	1,562,800	5.00%	1,562,800	5.00%
Aviva Otwarty Fundusz Emerytalny	1,793,479	5.74%	1,793,479	5.74%
ING Otwarty Fundusz Emerytalny	1,500,000	4.80%	1,500,000	4.80%
Other shareholders	3,420,133	10.94%	3,420,133	10.94%
TOTAL	**31,250,000**	**100.00%**	**31,250,000**	**100.00%**

Share Price Performance

In 2016, Milkiland share price was volatile due to a general cautious sentiment of investors about Ukraine due to macroeconomic instability and 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, high level of indebtedness and long-lasting negotiations with the Syndicate of the Group's major creditors on restructuring of the Group's debt obligations were a major reason of pressure on Milkiland N.V. quotations in 2016.

By the year-end, Milkiland was trading with EV/EBITDA'16 of 0.02.

Share price performance of Milkiland N.V.



Source: WSE, Bloomberg

Milkiland N.V. significant stock quotation data, 2016-2015

	2016	2015
Opening price (PLN)	1.38	1.61
Highest trading price (PLN)	2.64	3.67
Lowest trading price (PLN)	1.06	0.82
Closing price (PLN)	2.00	1.47
Closing price (EUR)	0.45	0.34
Stock performance (absolute)	44.93%	-8.70%
Stock performance (relative to WIG)	26.46%	-8.65%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	(127,49)	(232.98)
Price / earnings (P/E) as of December 31	-0.4	-0.1
Market capitalization as of 31 December (PLN million)	62.5	45.9
Market capitalization as of 31 December (EUR million)	14.2	10.8
Net debt (EUR million)	101.2	106.6
EV (EUR million) as of December 31	115.6	118.6
EV / EBITDA as of December 31	0.02	12.0
Free float (PLN million)	13.4	9.9
Free float (EUR million)	3.0	2.3
Average daily turnover (PLN thousand)	74.7	130.9
Average daily turnover (EUR thousand)	17.2	31.3

Source: Bloomberg, management estimates

Management and Personnel

Composition of the Company's Board

As of December 31, 2016, 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 Logush (Non-Executive director);
- Vitaliy Strukov (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, 2016, Milkiland employed 4,460 people. Out of them, 62 specialists were employed by LLC "Milkiland N.V.", the managing company of the Group, located in Kyiv, Ukraine. Another 84 persons worked for the head office of Ukrainian subsidiary of the Group - DE "Milkiland-Ukraine".

As 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 (3,058 people, including 523 employees in LLC "Milkiland Agro" and its subsidiaries).

Milkiland EU Sp. z o. o., the head company of the Group in Warsaw employed 16 specialists, UA Trade Sp. z o. o., the Polish trading company of the Group, employed 4 specialists. While the Polish production facility, Ostrowia Sp. z o. o. cheese production plant had 138 employees.

The Group's Russian head-company LLC "Milkiland RU" and Moscow-based production unit JSC "Ostankino Dairy" employed 18 and 802 people, respectively. Other Russian subsidiaries had 278 employees in total.

The key companies within the Group, first of all, the managing company LLC "Milkiland N.V." and its subsidiaries such as JSC "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 4.4% of top managers, 10.3% other managerial stuff, and about 18.6% is service staff. The remaining 66.7% is mainly a work force.

Milkiland provides equal employment and personnel development opportunities to 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 2016, the internal and external training programs were developed for the key jobs. 1,097 employees or almost one quarter of the Group's employees were trained. Production and technical employees were trained under staff development programs focusing on production safety and quality management, including HACCP-oriented programs at JSC "Ostankino Dairy", EU quality and safety requirements at DE "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, being one of the leading dairy producers, measures success not only in terms of financial criteria but also in building customer safety and satisfaction, employees' engagement, maintaining strong governance practices and supporting the communities we serve.

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 2016, 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 social assistance to support those employees, who were drafted to the Ukrainian Army and their families.

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 ("the Syndicate"), and started negotiations to sign a Loan Restructuring Agreement with the banks representing the Syndicate.

In 2016, the Group was continuing the negotiations with the Syndicate, but did not reach the final agreement on the loan restructuring conditions.

The Group is continuing the negotiations in the current year and expecting to finish them and sign the Loan Restructuring agreement in 2017.

The total sum of the Group's indebtedness to the Syndicate as of 31 December 2015 stood at USD 58.58 million, full sum is overdue.

At 31 December 2016, the Group was in breach of certain financial covenants under a few bank loans mostly due to sharp devaluation of the local currency (we refer to Note 31 of the financial statements). 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. Based on the negotiations with the main lenders about loans restructure, the management believes that the banks will not demand accelerated repayment of the loans because of breaches of covenants in 2016. Based on the assessment made by management, the Group concluded that it is deemed appropriate to prepare the consolidated financial statements on the going concern basis.

Also Pekao bank in Poland continued the legal proceedings under the loan agreement with Milkiland EU claiming the collection from the debtor of the indebtedness with a value of c. EUR 2.5 million.

The Bank initiated enforcement against Ostrowia cheese plant, a subsidiary of Milkiland EU, in order to get a formal control under several pledged assets of the plant. Those assets were the subject for selling by the bailiff within the enforcement procedures. At the same time, non-core production equipment of the plant was only the subject for those sales in 2016. They did not interrupt the production activities of Ostrowia in the last year.

The management of the Group is now in negotiations with Pekao bank on signing a restructuring agreement of the indebtedness to the bank. We expect to settle the issue with Pekao bank and to sign the restructuring agreement in 2017.

Start of the export to PRC

Milkiland Ukraine with the support of Milkiland Intermarket, both the subsidiaries of Milkiland Group, in June 2016 concluded first contract and started supplying dry milk products produced by the Group's Ukrainian facilities to the consumer in the PRC.

Those supplies were based at the clearance for export to China of cheese and different types of dry milk products provided in 2015 to five production subsidiaries of Milkiland Ukraine, including Romny dairy combine and Mena cheese plant, by Certification and Accreditation Administration of the PRC.

Material factors and events after the reporting date

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

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 Facilities Agreement between Milkiland N.V. the Syndicate dated 16 December 2011.

Changes in the Board of Directors

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

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

Fulfilment of the conditions of the restructuring of the indebtedness to one of the largest creditors of the Group

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

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

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

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

Receiving the information on filing the bankruptcy petition by PJSC Bank "Vozrogdenie"

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

This petition was claimed 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 proceeded with the first hearings of this case on April 26, 2017, when the independent arbitration administrator to manage JSC "Ostankino Dairy" during the bankruptcy proceeding was appointed.
On April 3, 2017, Milkiland N.V., as a sole owner of Ostankino, by its decision initiated the procedure of the voluntary liquidation of JSC "Ostankino Dairy" and assigned Ludmila Lovenetskaya, as a liquidator of Ostankino.

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

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

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

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

Due to the aforementioned, the publication of the Annual Report of Milkiland Group for 2016 had postponed until 31 May 2017.

Fulfilment of Strategy in 2016 and Outlook for 2017

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 people's homes, and 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 for Russian market, as well as Ostrowia brand as a traditional trademark well-known for Polish customers.

Strategic challenges of 2014-2016

During several years before 2014, Milkiland capitalized on the development of mainly export oriented business model. In particular, the Group enjoyed the status of leading exporter of Ukrainian cheese. Appreciating the high-marginal Russian dairy market, the Group made several targeted steps to secure a strong position, primarily in its cheese segment. This logic stood behind an acquisition of Ostrowia cheese plant in Poland in 2012 and localization of cheese production within Russia in Rylsk.

Since 2014, within the framework of escalating conflict between Russia and Ukraine, Russian authorities imposed multiple restrictions in the multilateral trade between Russia, Ukraine and EU. In particular, in July 2014, Russia banned all dairy and milk-containing imports from Ukraine, and then in August 2014, Russian government introduced an embargo on food products imported from the countries supporting sanctions over Russian Federation. Starting from 1 January 2016 the import agricultural and food products from Ukraine was also banned.

All of those restrictions remained in place in 2016, which led to diminished export supplies of Milkiland's Ukrainian and Polish subsidiaries to Russian market.

In the years 2015-2016, the unfavorable influence of this factor was aggravated by deterioration of the macroeconomic situation in Ukraine and continued stagnation of the Russian economy.

In particular, Russian GDP contracted by 3.7% in 2015 in comparison with 2014, the inflation stood at 15.5%, Russian Rouble devalued by c. 33%, mainly on the back of lowering global oil prices.

At the same time, Ukrainian real GDP in 2015 contracted by almost 10% on y-o-y basis. Ukraine faced full-scale economical and financial crisis with the capital outflow, shrinking banking system, local currency devaluation by c. 54%, inflation stood at 43.3% and decline of real income of population by more than 22% on y-o-y basis.

The macroeconomic situation started to improve in 2016, when the first signs of stabilization and restoration of growth of the economies of Ukraine and Russia, core markets of the Group, became evident.

In particular, real GDP of Ukraine in 2016 grew by 2.3% y-o-y, while Russian GDP remained practically flat (-0.2% y-o-y). The inflation rate in Ukraine and Russia in 2016 declined to 12.3% and 7.3%, respectively. The devaluation pressure on Ukrainian hryvnya and Russian rouble started to ease.

The combination of unfavorable geo-political risks, negative macroeconomic situation in Ukraine and Russia, as well as bad shape of the consumer markets in these countries, triggered a significant pressure on Milkiland's financials in 2015 and 2016. Thus, in the last year the Group's revenue declined by c. 23% to EUR 143 million.

Being pushed to change its business pillar from export orientation towards growing competence in the local markets of the Group's operations, in 2016 Milkiland continued its policy aimed at the expansion, primarily in the markets of Russia and Ukraine, as well as on participation in international trade of dairy goods through its Milkiland Intermarket subsidiary.

Strategy fulfilment in 2016

Last year, Milkiland RU, Russian subsidiary of the Group, continued its efforts aimed at further localization of the production and sales of chees under Milkiland's brands in Russia. This resulted c. 20% growth of revenues and doubling the EBITDA of the company on y-o-y basis.

Moscow-based Ostankino Dairy Combine, the main subsidiary of the Group in Russia, penciled c. 23% decline in the top-line and lower EDITDA in comparison with 2015. The main reasons behind that the lack of the working capital on the back of decreased debt portfolio due to the inquiries from several Ostankino creditors.

In Ukraine, the Group focused its efforts on support of market positions in cheese, as well as in whole-milk products segments. Due to lack of working capital Milkiland Ukraine subsidiary of the Group decreased its output, which led to c. 30% decline in revenues on y-o-y basis.

In 2016, Milkiland continued its vertical integration efforts by supporting of in-house milk production by Milkiland-Agro subsidiary. In particular, we concentrated at the optimization of milking cows headcount and improving of milk yields. As an outcome, the raw milk output in 2016 was by 7.4% lower than in 2015 and amounted c.13.1 thousand tons. At the same time, due to cost cutting and positive market situation the EBITDA Milkiland-Agro improved significantly to c. EUR 1.3 million in comparison with minor EBITDA stood at c. EUR 0.05 million in 2015.

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 based at the qualification for export to China obtained by several Ukrainian subsidiaries of the Group, entered into the contract and started supplies of the dry milk products to the promising market of this country. At the same time, Kazakhstan remained a major market for international trade of the Group in 2016. The sales to this country in value terms accounted for 68% of the revenues of Milkiland Intermarket in the reported year.

One of the important strategic issues for Milkiland to resolve in 2016 was a settlement of the relations with the Group's creditors, primarily based at signing of the respective loans restructuring agreements. As the major achievement on this way, the Restructuring agreement between the Group's subsidiaries and PJSC Credit Agricole Bank on restructuring of the loans in total amount of c. USD 14.5 million (c. EUR 13 million) was signed. The share of the respective indebtedness in the total debt portfolio of the Group as of 31 December 2015 stood at c. 12%.

Strategic outlook for 2017

In 2017, the major priority of Milkiland is to support the profitability of the business in order to restore the value generation for our shareholders.

We plan to achieve this goal by strengthening the market positions of Milkiland in the countries of its operations, as well as on searching for new export opportunities.

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. These activities are additionally fueled by the existing restrictions of EU and Ukrainian dairy export to Russia in 2016 – beginning of 2017.

The goals of the Ukrainian division are 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 find a possibilities of initiating an export to EU within the framework of Free-Trade Agreement between Ukraine and European Union. Here, the export sales of dairy goods, including butter and dry-milk products, to EU market is expected to be open in 2017.

In addition, we plan to continue the efforts on development of the distribution network in China after the successful start of the export supplies to this country in 2016 and to increase an export to third countries markets, including Jordan, Israel. The devaluation of the Ukrainian Hryvnia in 2015 – 2016 remains the supporting factor for reaching of all of these goals.

Milkiland EU in 2017 to continue the realization of a tolling contract with German based company B2B Intertrade on production of cheese product, as well as to continue the efforts aimed on development of local distribution network in Poland and searching for the new export possibilities within and outside the EU.

Last but not the least, in 2016 the Group is going to finish the negotiations with the syndicate of international banks and sign the Loan Restructuring Agreement with the Banks representing the syndicate, namely UniCredit Bank Austria AG and AO Raiffeisenbank.

The Group's investment budget for 2017 will be 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 1 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). In June 2016 Russia extended the duration of the ban till the end of 2017. There are high chances that existing embargo will be extended again for 2018.

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 threat 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 2016. In particular, in 3Q and 4Q of 2016 the Group faced the increased prices for raw milk in Ukraine and Russia.

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 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 2016 the milk production in Ukraine has decreased decreased for 1.9% comparing with 2015. In 2017 the milk production in Ukraine is projected to decrease from 1% to 5% based on the data of State Statistic Service in Ukraine and FAO.

In 2016 in Russia the total milk production decreased for 0.7% accordingly to RosStat.. Nevertheless, for 2017 in Russia is expected the general increase of the milk shipment for industrial processing up to 2.1% based on 2016 statistics.

In the following year 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 additional 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 a risk that the new procedure is not finalized yet and a failure to receive such refunds by the Group may adversely affect its results of 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, 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 shall plan and implement 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 (RUR), 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 present corruption, 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.

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 Dutch Corporate Governance Code (the "Code").
It can be found at:
www.commissiecorporategovernance.pl

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 at: www.gpw.pl/lad_korporacyjny_na_gpw

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 each year in its annual report how it applies the principles and best practice provisions of the Code in the past year and should, where applicable, carefully explain why a provision was not applied. It is up to the shareholders to call the management board and the supervisory board to account for compliance with the Code.

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
- DE Milkiland-Ukraine (Ukraine) with its 39 subsidiaries in Ukraine and 1 in Panama,
- 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.

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. 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 and policy of the Company.

Board of Directors - Composition and division of duties

During the year 2016, the composition of the Board of Directors was as follows:

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;

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;

Vyacheslav Rekov: Non-Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2016 for another one year period; responsible for strategic acquisitions and integration of new businesses; maintaining communication with investors, Member of the Audit Committee;

Willem Scato van Walt Meijer: Non-Executive Director, appointed as of December 6, 2010 and reappointed as of June 17, 2016, 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;

Oleg Rozhko: Non-Executive Director, Chairman of the Board of Directors, appointed as of June 22, 2012 and reappointed as of June 17, 2016, for another one year period; responsible for coordination of the Board and ensuring that proper corporate governance is in place;

George Christopher Logusch: Non-Executive Director, appointed as of June 21, 2013 and reappointed as of June 17, 2016, for another one year period; responsible for assisting in the Company's strategy development, risk assessment control and review of management performance, and

Vitaliy Strukov: Non-Executive Director, appointed as of June 21, 2013 and reappointed as of June 17, 2016, for another one year period; responsible for consulting in the financial sphere, business process optimizations, informational support on investment opportunities and perspectives.

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 in accordance with article 13.4 of the Company's Articles of Association, the best practice provisions under chapters II (and III, where applicable) of the Code and best practice provisions No. 28 and No. 40 of the WSE Code. The Terms of Reference of the Board of the Company are applied and interpreted with reference to the Code and the WSE Code and can be viewed on the Company's website: 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 and dismissed by 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.

Art. 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 2016 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 jointly. 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.

Board of Directors - Appointment 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: 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 III.8.3 of the Code, only Non-Executive Directors can take place in the Audit Committee, a remuneration committee and/or 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 Willem Scato van Walt Meijer (the Chairman) and Vyacheslav Rekov. The Terms of Reference of the Audit Committee can be viewed on the Company's website: www.milkiland.nl/en/investors/general_information/corporate_documents

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 24,536,088, 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: www.milkiland.nl/en/Investor_relations/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 2016, 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 2015, approval of reservation and dividend policy, discharge of the members of the Board of Directors for the financial year 2015, appointment of the external auditor as referred to in section 2:393 of the Dutch Civil Code for the financial year 2016 and the authorization of the Board of Directors for a period of 18 months following June 17, 2016 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 and iii) restrict or exclude pre-emptive rights in respect of such issue of shares and/or rights to subscribe for such shares.

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 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.

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.

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.

Internal audit department
In the financial year 2016, the internal audit function of the Company was performed by the internal audit department and partially by licensed external auditors.
In order to provide effective internal control of the financial statements preparation the internal audit department has developed and implemented a two-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 provided by the chiefs of the internal audit unit. In more complicated cases the licensed external auditor is to be invited.

The second level of control is provided by the financial department at the level of Chief Financial Officer of Milkiland N.V. LLC (Ukraine) who performs a thorough check and afterwards presents the financial statement to the Board of Directors.

The Company recognizes the importance of internal audit and envisages improving its existing audit function. The main responsibilities of the head of internal audit involve the implementation of the internal control environment, global risk assessment and management and the realization of regular internal audit functions.

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 in accordance with Dutch laws deviates from the recommendations of WSE Code (I.Z.1.2.), which prescribes the existence and functioning of two separate governing bodies.

The Company explains why it does not comply with the following recommendations of the WSE 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 I.R.2. of WSE Code;
- Company is in the process of face-lifting of its corporate web-site in order to provide the web-site visitors with information easier for understanding regarding:
  - Current division of duties and responsibilities for Company's Directors on the Company web-site (I.Z.1.3., II.Z.1 WSE Code);
  - Selected financial data for the last 5 years published on the web-site in addition to the periodic financial reports (I.Z.1.8. WSE Code);
- Company plan to publish on its corporate web-site in 2017 the information about:
  - The absence of a specific internal audit rule and compliance with applicable laws, as recommended by I.Z.1.11. WSE Code;

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

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

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 2016 consisted of six men and one woman, of diverse age and professional background. The Company understands and supports this recommendation and considers involving more women in the Board of Directors.

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

Principle III.7 provides that the General Meeting of Shareholders shall determine the remuneration of the supervisory board members and that the remuneration of a supervisory board member is not dependent on the results of the company. However, the Company provides for the entitlement to grant an annual bonus to the Chairman of the Board of Directors. The Company believes that this deviation does not affect the Chairman's capabilities of effectively managing and supervising the Company.

Best practice provision III.8.3 provides that chapter III.5 of the Code needs to be applied. In deviation from chapter III.5 of the Code, the Company has not yet established a remuneration committee nor a selection and appointment committee. The Remuneration Policy of the Company is defined by shareholders on Annual General Meetings each year. The Board of Directors will conduct the relevant duties that are charged upon this committee on the basis of the Code.

Best practice provision IV.3.13: The Company currently has not yet developed an outline policy on bilateral contacts with the shareholders. The Company expect to develop such policy and publish it on its website in 2017.

The Dutch Corporate Governance Code has been amended in 2016 by the Dutch Corporate Governance Code Monitoring Committee. The revised Dutch Corporate Governance Code was published on December 8, 2016, at: http://www.mccg.nl/
In 2017 the Company will review and improve it corporate governance to keep in line with the revised Code. In 2018 the Company plans to publish the report on compliance with the revised Code in the 2017 financial year.

Report of Non-Executive Directors
In 2016, Vyacheslav Rekov, Willem Scato van Walt Meijer, Oleg Rozhko, Vitaliy Strukov and George Christopher Logusch proceeded to perform their duties as Non-Executive Directors of the Company.

The Non-Executive Directors are charged with supervising, monitoring and advising the Executive Directors with respect to all responsibilities of the Board of Directors. In 2016 the statements of fulfilment of the independence criteria were provided by all Non-Executive Directors: Willem Scato van Walt Meijer, George Christopher Logusch, Oleg Rozhko, Vyacheslav Rekov, and Vitaliy Strukov.

In carrying out their tasks, all of the above mentioned Non-Executive Directors gave their advice and expertise for the best Company practice. Oleg Rozhko is the Chairman of the Board of Directors, Willem Scato van Walt Meijer is the Chairman of the Audit Committee and Vyacheslav Rekov is a member of the Audit Committee.

On December 10, 2016, Vitaliy Strukov has notified the Company and other members of the Board of Directors about his decision to terminate his appointment as a Non-Executive Director and terminate the relevant Service Agreement with the Company starting from January 10, 2017, due to his involvement in a new project outside the dairy industry. A new Non-Executive Director may be approved at the Annual General Meeting of shareholders in 2017.

There were no irregularities in the 2016 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 of members of the Board of Directors is defined by shareholders on Annual General Meetings each year.

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 2016 for rendered services is presented in the table below.

Name	Position in 2015	Appointed	Gross Remuneration (EUR)	Expenses reimbursement (EUR)	Total (EUR)
Oleg Rozhko	Chairman of the Board of Director	22.06.2012	50,000	0	50,000
Olga Yurkevich	Executive Director, Chief Production Officer	28.08.2007	25,000	0	25,000
Anatoliy Yurkevych	Executive Director, Chief Executive Officer	28.08.2007	5,000	0	5,000
Vyacheslav Rekov	Non-executive Director	28.08.2007	42,170	0	42,170
Willem Scato van Walt Meijer	Non-executive Director	06.12.2010	50,000	0	50,000
Vitaliy Strukov	Non-Executive Director	21.06.2013	32,000	0	32,000
George Logusch	Non-Executive Director	21.06.2013	40,000	0	40,000

Directors' remuneration stands for directors' fees, salaries of Executive Directors, bonuses and other incentive payments. The Company's remuneration policy in 2016 did not provide any reimbursement of Directors expenses.

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 2016 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, 2016 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at December 31, 2016 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended December 31, 2016, 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 BDO Audit & Assurance B.V., which performed the audit of the statutory financial statements of the Company for the year ended December 31, 2016, 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 II.1.4 of the Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance 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 2016, 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 2016.

Board of Directors of Milkiland N.V.

Amsterdam, 19 May 2017

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Current assets			
Cash and cash equivalents	6	1,044	907
Trade and other receivables	7	20,042	19,506
Inventories	8	12,878	12,193
Current biological assets	13	1,096	1,621
Current income tax assets		434	947
Other taxes receivable	9	6,739	5,417
		42,233	**40,591**
Non-current assets			
Goodwill	10	1,558	1,746
Property, plant and equipment	11	98,763	117,787
Investment property	12	19,971	20,065
Non-current biological assets	13	1,383	1,507
Other intangible assets	11	2,325	1,695
Deferred income tax assets	29	2,223	3,159
		126,223	**145,959**
TOTAL ASSETS		**168,456**	**186,550**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	0	43,054	24,659
Current income tax liabilities		71	351
Other taxes payable	15	4,130	2,118
Short-term loans and borrowings	16	87,293	103,410
		134,548	**130,538**
Non-current liabilities			
Loans and borrowings	16	14,993	4,061
Deferred income tax liabilities	29	11,771	14,706
Other non-current liabilities		230	1,304
		26,994	**20,071**
Total liabilities		**161,542**	**150,609**
Equity attributable to owners of the Company			
Share capital	17	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve	18	69,208	79,866
Currency translation reserve	19	(34,297)	(48,651)
Retained earnings		(80,918)	(48,377)
		5,805	**34,650**
Non-controlling interests		**1,109**	**1,291**
Total equity		**6,914**	**35,941**
TOTAL LIABILITIES AND EQUITY		**168,456**	**186,550**

(All amounts in euro thousands unless otherwise stated)

	Notes	2016	2015
Revenue	21	146 758	191,447
Change in fair value of biological assets	22	(52)	105
Cost of sales	23	(125 592)	(163,793)
Gross profit		**21 114**	**27,759**
Selling and distribution expenses	24	(13,079)	(15,799)
Administrative expenses	25	(12,995)	(14,465)
Other expenses, net	26	(535)	(24,374)
Operating loss		**(5,495)**	**(26,879)**
Finance income	27	18	418
Finance expenses	28	(31,242)	(46,613)
Foreign exchange gain/(loss), net		(5)	
Loss before income tax		**(36,724)**	**(73,074)**
Income tax	29	(2,182)	(222)
Net loss for the year		**(38,906)**	**(73,296)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Gains on revaluation of properties		(8,044)	22,177
Tax effect on revaluation of properties		1,826	(4,059)
		(6,218)	18,118
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		16,097	(3,474)
Total other comprehensive income/(loss)		**9,879**	**14,644**
Total comprehensive loss		**(29,027)**	**(58,652)**
Loss attributable to:			
Owners of the Company		(38,804)	(72,807)
Non-controlling interests		(102)	(489)
		(38,906)	**(73,296)**
Total comprehensive loss attributable to:			
Owners of the Company		(28,845)	(57,495)
Non-controlling interests		(182)	(1,157)
		(29,027)	**(58,652)**
Earnings per share	33	**(1.24)**	**(2.33)**

(All amounts in euro thousands unless otherwise stated)

	Notes	2016	2015
Cash flows from operating activities:			
Loss before income tax		**(36,725)**	**(73,074)**
Adjustments for:			
Depreciation and amortization	11	10,279	11,810
Loss from disposal and write off of inventories	26	818	502
Change in provision and write off of trade and other accounts receivable	26	27	9,014
Loss from settlement of accounts receivable, net	26		14,267
Change in provision and write off of unrealized VAT	26	500	42
Loss from disposal of non-current assets	26	5	1,399
Loss on revaluation of property, plant and equipment	26	502	509
Change in fair value of biological assets	22	52	(105)
Operational foreign exchange results, net	26	(1,554)	(30)
Finance income	27	(18)	(418)
Finance expenses	28	31,242	46,613
Write off of accounts payable	26	(190)	(2)
Operating cash flow before movements in working capital		**4,938**	**10,527**
Increase in trade and other accounts receivable		3,744	(7,132)
Decrease/(increase) in inventories		(1,197)	2,175
(Increase)/decrease in biological assets		775	(152)
(Decrease)/increase in trade and other payables		7,015	(2,958)
Decrease/(increase) in other taxes receivable		(1,724)	2,940
Increase/(decrease) in other taxes payable		2,012	55
Net cash provided by operations		**15,563**	**5,455**
Income taxes paid		(711)	(2,357)
Interest received		1	542
Interest paid		(5,313)	(9,489)
Net cash provided by operating activities		**9,540**	**(5,849)**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(1,653)	(3,261)
Proceeds from sale of property, plant and equipment	11	131	48
Acquisition of subsidiaries, net of cash acquired		(793)	10
Net cash used in investing activities		**(2,315)**	**(3,203)**
Cash flows from financing activities:			
Proceeds from borrowings	16	19,495	37,083
Repayment of borrowings	16	(26,574)	(36,495)
Dividends paid	20	-	-
Commissions paid		(23)	(42)
Net cash provided by/(used in) financing activities		**(7,102)**	**546**
Net decrease in cash and equivalents		**123**	**(8,506)**
Cash and equivalents, beginning of year	6	**907**	**10,431**
Effect of foreign exchange rates on cash and cash equivalents		14	(1,018)
Cash and equivalents, end of year	6	**1,044**	**907**

MILKILAND N.V.
Consolidated statement of changes in equity
(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 2016		**3,125**	**48,687**	**(48,651)**	**79,866**	**(48,377)**	**34,650**	**1,291**	**35,941**
Profit for the year		-	-	-	-	(38,804)	**(38,804)**	(102)	**(38,906)**
Revaluation of PPE					(6,220)		**(6,220)**		**(6,220)**
Other comprehensive loss, net of tax effect		-	-	14,354	1,825	-	**16,179**	(80)	**16,099**
Total comprehensive income for the year		**-**	**-**	**14,354**	**(4,395)**	**(38,804)**	**(28,845)**	**(182)**	**(29,027)**
Realized revaluation reserve, net of income tax	18	-	-	-	(6,263)	6,263	**-**	-	**-**
Balance at 31 December 2016		**3,125**	**48,687**	**(34,297)**	**69,208**	**(80,918)**	**5,805**	**1,109**	**6,914**
Balance at 1 January 2015		**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**	**2,448**	**94,593**
Profit for the year		-	-	-	-	(72,807)	**(72,807)**	(489)	**(73,296)**
Revaluation of PPE		-	-	-	18,118	-	**18,118**	-	**18,118**
Other comprehensive loss, net of tax effect		-	-	(2,806)	-	-	**(2,806)**	(668)	**(3,474)**
Total comprehensive income for the year		**-**	**-**	**(2,806)**	**18,118**	**(72,807)**	**(57,495)**	**(1,157)**	**(58,652)**
Realized revaluation reserve, net of income tax	18	-	-	-	(6,754)	6,754	**-**	-	**-**
Balance at 31 December 2015		**3,125**	**48,687**	**(48,651)**	**79,866**	**(48,377)**	**34,650**	**1,291**	**35,941**

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 2016 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 16 June 2017 and are subject to adoption by the shareholders during the Annual General 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.

As at 31 December 2016 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine, 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 December 2016, the Group employed 4,460 people (2015: 5,550 people).

For the period from 1 January 2016 to 31 December 2016 the Company had the following direct and indirect subsidiaries:

			Effective share of ownership	
Name	**Country of incorporation**	**Principal activity**	**31 December 2016**	**31 December 2015**
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 Corporation	Panama	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%
JSC Ostankino Dairy Combine	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%
DE Milkiland Ukraine	Ukraine	Managing company	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	72.3%	72.3%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%
LLC Molochni vyroby	Ukraine	Trade	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%
LLC Stugna-Moloko	Ukraine	Trade		100.0%
LLC Trubizh-Moloko	Ukraine	Trade		100.0%
PJSC Iskra	Ukraine	Agricultural	70.8%	70.8%
DE Agrolight	Ukraine	Production entity	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	Agricultural	100.0%	100.0%
LLC Bachmachregionpostach	Ukraine	Grain elevator	100.0%	100.0%
ALLC Nadiya	Ukraine	Agricultural	100.0%	100.0%
LLC Uspih-Mena	Ukraine	Agricultural		100.0%
LLC Uspih-Mena Plus	Ukraine	Agricultural	100.0%	
JSC Sosnitsky Rajagrohim	Ukraine	Agricultural		97.5%
LLC Agro-Mena	Ukraine	Agricultural	100.0%	100.0%
LLC Iskra-Sloboda	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%
LLC Novomoskovsk Dairy Combine	Russia	Production entity	100.0%	100.0%
LLC Agrointer Corporation	Panama	Trade	100.0%	-
LLC Newholm Systems S.A.	Panama	Trade	100.0%	-
LLC Cross Value	Marshall Island	Trade	100.0%	-

During the year ended 31 December 2016, the Group finalized registration of new subsidiary LLC Agrointer Corporation, LLC Newholm Systems S.A., LLC Cross Value in Panama and Marshall Islands.

During the year ended 31 December 2016 JSC Sosnitsky Rajagrohim and LLC Uspih-Mena were sold on third parties.

Going concern assumptions. The Group conducts significant part of its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade. In 2016, Ukrainian political and economic situation deteriorated significantly.

The significant deterioration of the political and economic relations of Ukraine with the Russian Federation have contributed to the decline of key economic indices, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings. From 1 January 2016 and up to 31 December 2016, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 11.7% calculated based on the National Bank of Ukraine exchange rate of UAH to US Dollar. The NBU continued certain restrictions on purchase of foreign currencies, cross border settlements (including repayment of dividends), and also mandated obligatory conversion of foreign currency proceeds into UAH. The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements. Stabilization of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions. Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

As at 31 December 2016 the Group was in breach of certain financial covenants under a few bank loans mostly due to devaluation of the local currency (Note 31and Note 35). This situation started in 2014 and is still applicable. 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. Based on the negotiations with the main lenders about loans restructure, the management believes that the banks will not demand accelerated repayment of the loans because of breaches of covenants in 2016. Based on the assessment made by management, the Group concluded that it is deemed appropriate to prepare the consolidated financial statements on the going concern basis.
Also Pekao bank in Poland started the legal proceedings under the loan agreement with Milkiland EU claiming the collection from the debtor of the indebtedness with a value of c. EUR 2.5 million. The Bank is going to enforce a formal control under pledged assets of Ostrowia cheese plant. On 16.11.2016 an additional agreement was signed with Pecao-Leasing and agreement was prolonged until 31.12.2017 with repayment schedule in the amount of 100 000 PLN monthly. Company continues negotiations with Bank Pekao SA about prolongation of the loan until 31.12.2017 with repayment schedule in the amount of 100 000 PLN monthly.
In the course of 2017 Milkiland has initiated the voluntary liquidation procedure for its OJSC "Ostankino Dairy" factory. The reason for this is that OJSC Bank "Vozrogdenie" has started a bankruptcy procedure against OJSC "Ostankino Dairy". The events cause a possible material threat to the going concern ability of the company and its operations in the Moscow area. The ability of the company to continue its operations in Moscow is dependent on coming negotiations during the voluntary bankruptcy procedures and the ability of Milkiland to refinance the factory owned by OJSC "Ostankino Dairy". Discontinuation of the Russian activities could impose a serious threat to the Going Concern ability of the group. We refer to note 35 for more information on this issue.

The above 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.

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

On the whole, the accounting policies adopted are consistent with those of the previous financial year. Certain new IFRSs and Interpretations became effective from 1 January 2016. Listed below are those new or amended standards or interpretations which could be relevant to the Company:

Amendments to IFRS 10 *Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities – Applying the consolidation exception»*

The amendments address issues that have arisen in applying the investment entities exception in IFRS 10. The amendments to IFRS10 clarify that the exception from the presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interest in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Company's financial statements.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests.* The amendments require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 *"Business Combination"* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

These amendments do not have any impact on the Company's financial statements.

IFRS 14 *Regulatory Deferral Accounts.* IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 1 *Presentation of Financial Statements - Disclosure Initiative*

These amendments clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirement in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;

- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

These amendments do not have any impact on the Company's financial statements.

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: *Clarification of Acceptable Methods of Depreciation and Amortization.* The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively. The amendments do not have any impact on the Company, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants.* The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and do not have any impact on the Company's financial statements.

Amendments to IAS 27 *Separate Financial Statements*: *Equity Method in Separate Financial Statements.* The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. These amendments do not have any impact on the Company's financial statements.

Annual Improvements (2012 – 2014 Cycle).

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The amendment clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa is considered to be a continuation of the original plan of disposal. Upon reclassification, the classification, presentation and measurement requirements of IFRS 5 are applied. This amendment is applied prospectively.

IFRS 7 *Financial Instruments: Disclosures.*

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the offsetting amendments in condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 *Employee Benefits: Discount rate - regional market issue*

The amendment has been clarified and requires that high quality corporate bonds used to determine the discount rate for the accounting of employee benefits need to be denominated in the same currency as the related benefits that will be paid to the employee. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 *Interim Financial Reporting*

The amendment clarifies, that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within interim financial report (e.g. in the management commentary or the risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

IFRS and IFRIC interpretations not yet effective

The Company has not applied the following IFRSs and Interpretations to IFRS and IAS that have been issued but are not yet effective:

IFRS 9 *Financial Instruments*. In July 2014, the IASB issued the final version of IFRS 9 which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and the amount of impairment of financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 *Leases*. IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise 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 recognise 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 recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

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 is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

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.

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 valuations by external independent appraisal agency.

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. 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 agency.

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 IAS 39 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.

Loans and receivables

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 2016 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

<u>Current tax</u>

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.

<u>Deferred tax</u>

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 amortised 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, 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	RUR	PLN
Average for year ended 31 December 2016	1.1067	28.2704	74.2310	4.3625
As at 31 December 2016	1.0541	28.6619	63.8111	4.4240
Average for year ended 31 December 2015	1.1100	24.1942	67.7767	4.1839
As at 31 December 2015	1.0887	26.1295	79.6972	4.2615

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 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 32% (2015: 34%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 56% (2015: 55%) 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:

	2016				2015			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	94,395	41,236	12,015	**147,646**	114,421	63,266	13,760	**191,447**
Inter-segment revenue	-	-	(888)	**(888)**	-	-	-	**-**
Revenue from external customers	94,395	41,236	11,127	**146,758**	114,421	63,266	13,760	**191,447**
EBITDA	**3,439**	**3,059**	**(39)**	**6,459**	**9,124**	**3,770**	**(1,423)**	**11,471**
EBITDA margin	4%	7%	0%	**4%**	8%	6%	-10%	**6%**
Depreciation and amortization	3,193	5,255	1,831	**10,279**	2,735	7,053	2,022	**11,810**

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:

	2016				2015			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	**47,082**	**81,567**	**18,997**	**147,646**	**65,703**	**105,094**	**20,650**	**191,447**
Inter-segment revenue	**(422)**	**-**	**(466)**	**(888)**	**-**	**-**	**-**	**-**
Revenue from external customers	**46,660**	**81,567**	**18,531**	**146,758**	**65,703**	**105,094**	**20,650**	**191,447**
EBITDA	**3,771**	**1,660**	**1,028**	**6,459**	**3,368**	**8,578**	**(475)**	**11,471**
EBITDA margin	**8%**	**2%**	**6%**	**4%**	5%	8%	-2%	**6%**
Depreciation and amortization	**4,566**	**5,085**	**628**	**10,279**	5,071	4,120	2,619	**11,810**

A reconciliation of EBITDA to profit before tax:

	2016	2015
EBITDA	6,459	11,471
Other segments EBITDA	(1,016)	(1,619)
Total segments	**5,443**	**9,852**
Depreciation and amortization	(10,279)	(11,810)
Non-recurring expenses	(153)	(23,013)
Loss from disposal and impairment of non-current assets	(506)	(1,908)
Finance expenses	(31,242)	(46,613)
Finance income	13	418
Loss before tax	**(36,724)**	**(73,074)**

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:	2016	2015
Sales revenue	-	408
Finance income/(expenses), net	-	

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

Entities under common control:	2016	2015
Trade accounts receivable	281	261
Other financial assets	3,264	2,251
Other accounts receivable	224	64

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 299 thousand (2015: EUR 676 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 2016	31 December 2015
Short term deposits		39
Cash in bank and cash on hand	1,044	868
Total cash and cash equivalents	**1,044**	**907**

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 2016	31 December 2015
Trade accounts receivable	13,386	14,724
Other financial assets	10,752	10,463
Allowance for doubtful debts	(9,707)	(10,324)
Total financial assets within trade and other receivables	**14,431**	**14,863**
Advances issued	1318	2,197
Other receivables	4,873	3,124
Allowance for doubtful debts	(580)	(678)
Total trade and other accounts receivable	**20,042**	**19,506**

As at 31 December 2016 trade receivables of EUR 2,762 (2015: EUR 4,666 thousand) were past due. Total trade accounts receivable are individually determined and to be impaired in the amount of EUR 9,707 thousand (2015: EUR 10,324 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 3,264 thousand (2015: EUR 2,251 thousand) due from related parties.

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

	31 December 2016		31 December 2015	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Customers with no history of default	10,624	10,752	10,058	2,253
Total current and not impaired	**10,624**	**10,752**	**10,058**	**2,253**
Individually determined to be impaired				
- less than 30 days overdue	165	-	1,505	-
- 30 to 60 days overdue	28	-	242	-
- 60 to 90 days overdue	10	-	92	-
- 90 to 360 days overdue	166	-	123	-
- over 360 days overdue	2,393	-	2,704	-
Customers with history of default	-	-	-	8,210
Total individually determined to be impaired	**2,762**	**-**	**4,666**	**8,210**
Less impairment provision	(2,221)	(7486)	(2,114)	(8,210)
Total	**11,165**	**3,266**	**12,610**	**2,253**

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 2016 Other financial assets include balances previously classified as Deposits in PJSC UKRAINIAN PROFESSIONAL BANK in the amount of EUR 8,210 thousand for which 100% allowance for doubtful debts was accrued (note 26).

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:

	2016	2015
Balance 1 January	**2,114**	**2,439**
Provided by during the year	320	(17)
Unused amount reversed	(53)	(62)
Receivable written off during the year as uncollectible	(144)	11
Exchange difference	(16)	(257)
Balance 31 December	**2,221**	**2,114**

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 2016	31 December 2015
Raw and other materials	4,902	5,870
Finished goods and work in progress	7,445	6,191
Agriculture produce	531	132
Total inventories	**12,878**	**12,193**

At 31 December 2016 bank borrowings are secured on inventories the value of EUR 3,900 thousand (2015: EUR 837 thousand) (note16).

As at 31 December 2016 inventories are stated net of provision for obsolescence at the amount of EUR 553 thousand (2015: EUR 487 thousand).

9 Other taxes receivable

	31 December 2016	31 December 2015
VAT recoverable	6,286	5,291
Payroll related taxes	75	81
Other prepaid taxes	378	45
Total other taxes receivable	**6,739**	**5,417**

VAT receivable as at 31 December 2016 is shown net of provision at the amount of EUR 995 thousand (31 December 2015: EUR 582 thousand). The provision for VAT is created for part of VAT balances due to complexity of reimbursement of VAT in Ukraine and is estimated at 19% (2015: 25%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

10 Goodwill

	2016	2015
Balance at 1 January	1,746	2,147
Foreign currency translation	(188)	(401)
Balance at 31 December	**1,558**	**1,746**

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 Combine 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 2016	**31 December 2015**
Milk production operations	1,490	1,193
Agricultural operations	68	553
	1,558	**1,746**

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 2017.

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 2016 and in 2015. 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 2015						
Revalued cost	90,982	31,055	6,756	10,201	3,486	142,480
Accumulated depreciation and amortization	(799)	(2,648)	(145)	-	(1,200)	(4,792)
Net book value	**90,183**	**28,407**	**6,611**	**10,201**	**2,286**	**137,688**
Year ended 31 December 2015						
Opening net book value	90,183	28,407	6,611	10,201	2,286	137,688
Additions	1,151	916	278	2,769	42	5,156
Depreciation and amortization	(3,480)	(6,414)	(1,669)	-	(247)	(11,810)
Transfers	20	606	34	(660)	-	-
Revaluation	16,500	4,905	1,928	(359)	-	22,974
Disposals	(2,446)	(333)	(132)	(4,831)	-	(7,742)
Exchange rate difference	(18,496)	(4,321)	(1,555)	(2,026)	(386)	(26,784)
Closing net book value	**83,432**	**23,766**	**5,495**	**5,094**	**1,695**	**119,482**
At 31 December 2015						
Revalued cost	84,575	27,880	5,655	5,093	3,051	126,254
Accumulated depreciation and amortization	(1,145)	(4,111)	(159)	-	(1,358)	(6,773)
Net book value	**83,430**	**23,769**	**5,496**	**5,093**	**1,693**	**119,481**
Year ended 31 December 2016						
Opening net book value	83,430	23,769	5,496	5,093	1,693	119,481
Additions	1,145	3,662	308	4,421	784	10,320
Depreciation and amortization	(3,721)	(5,637)	(1,562)	-	(248)	(11,168)
Transfers	1,551	388	36	(1,974)	-	-
Revaluation	368	(5,018)	(3,428)	-	-	(8,078)
Disposals	(10,943)	(149)	211	(113)	(75)	(11,069)
Exchange rate difference	(1,042)	1,795	(662)	1,338	172	1,601
Closing net book value	**70,788**	**18,810**	**399**	**8,765**	**2,326**	**101,088**
At 31 December 2016						
Revalued cost	74,880	25,873	1,746	8,765	3,363	114,627
Accumulated depreciation and amortization	(4,092)	(7,063)	(1347)	-	(1,037)	(13,539)
Net book value	**70,788**	**18,810**	**399**	**8,765**	**2,326**	**101,088**

The Company conducted valuation of assets with effective date 31 December 2016 and indicated the impairment loss on Ukrainian assets first of all related with decrease in cheese production plants capacity utilization due to the trading embargo imposed by Russian Federation against Ukraine, reduction of consumption in Ukraine as a result of financial crisis in the country and lower consuming in Kazakhstan as also important market for the Company. High level of country risk and cost of financing in Ukraine also had a negative effect on the assets valuation. Company focuses its efforts on new export markets entrance to ensure sufficient level of production facilities utilization in Ukraine using the advantages for exporters of significant devaluation of Ukrainian Hryvnia.

WACC for Ukrainian production assets impairment was calculated using the following most significant variables:

- Country risk at the rate of 6.2%
- Market risk Premium at the rate of 5.69%
- Cost of Debt for Ukrainian Hryvnia at the rate of 20.2%

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

At 31 December 2016, bank borrowings are secured on properties for the value of EUR 76,231 thousand (2015: EUR 88,685 thousand) (note16).

At 31 December 2016, bank borrowings are secured on Intangible assets the value of EUR 739 thousand (2015: EUR 608 thousand).

At 31 December 2016, the gross carrying value of fully depreciated property, plant and equipment is EUR 1,021 thousand (2015: EUR 987 thousand).

The Group engaged independent appraisers to determine the fair value of land and buildings, plant and equipment and other assets of Ukrainian and Russian segments. Fair value as at 31 December 2016 was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards. Valuation of property, plant and equipment is within level 3 of the fair value hierarchy.

As a result of the revaluation, a revaluation deficit net EUR 6,263 thousand was debited to other comprehensive income and is shown in Revaluation reserve in shareholders equity (note 18). The revaluation loss of EUR 501 thousand was debited to Other (expenses)/income (note 26).

Should there be no revaluation the net book value of property, plant and equipment and intangible assets as at 31 December 2016 would be:

	Land and buildings	**Plant and equipment**	**Other assets**	**Constructions in progress**	**Intangible assets**	**Total**
31 December 2016	70,420	23,827	3,827	8,765	2,326	109,165

12 Investment property

	Land	**Constructions in progress**	**Total**
Year ended 31 December 2016			
Opening balance value	13,097	6,968	20,065
Net gains or losses from FV adjustments	168	(262)	(94)
Closing balance value	**13,265**	**6,706**	**19,971**
At 31 December 2016			

Year ended 31 December 2015	Land	Constructions in progress	Total
Opening balance value	-	-	-
Additions	13,097	6,968	20,065
Closing balance value	**13,097**	**6,968**	**20,065**
At 31 December 2015			

At 31 December 2016, there were no restrictions on the realization of investment property or the remittance of income and proceeds of disposal (2015: 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 2016 (2015: on 31 December 2015) 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, 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. The valuation of the biological assets is within level 3 of the fair value hierarchy.

Fair values of biological assets were based on the following key assumptions:
- crops' revenue is projected based on the expected volume of harvested barley and wheat.
- dairy cattle revenue is projected based on the expected milk produced during their productive life after the reporting date and expected volume of meat at the date of slaughter;
- the average productive life of a cow is determined based on internal statistical information prices for barley, wheat, milk and meat are obtained from market resources as at the end of the reporting period;
- production and costs to sell are projected based on actual operating costs;
- a pre-tax discount rate of 19.60% is applied in determining fair value of biological assets. The discount rate is based on the average cost of capital in Ukraine 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 2016		31 December 2015	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	3,078	956	4,356	1,594
Other		4	-	6
	3,078	**960**	**4,356**	**1,600**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Other	-	136	-	21
	-	**136**	**-**	**21**
Total current biological assets	**-**	**1,096**	**-**	**1,621**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	1,996	1,383	2,642	1,507
Other livestock			-	-
	1,996	**1,383**	**2,642**	**1,507**

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2016 and 2015:

	2016	**2015**
1 % increase in discount rate	3	24
1 % decrease in discount rate	(3)	14
10 % increase in price for milk		-
10 % decrease in price for milk	1	(149)
10 % increase in price for meat	104	164
10 % decrease in price for meat	-114	(153)

The following represents the changes during the year ended 31 December 2016 and 31 December 2015 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 2015	**1,806**	**95**	**2,017**
Purchases	1,412	-	-
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	138	-	(33)
Investments into future crops	-	-	-
Transfers	(748)		748
Decrease due to harvest	-	(74)	-
Disposals	(469)	-	(824)
Currency translation difference	(539)	-	(401)
As at 31 December 2015	**1,600**	**21**	**1,507**
Purchases	866		219
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	(16)		(36)
Investments into future crops		115	
Transfers	(521)		521
Decrease due to harvest			
Disposals	(797)		(752)
Currency translation difference	(172)		(76)
As at 31 December 2016	**960**	**136**	**1,383**

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 2016	31 December 2015
Trade payables	16,076	15,000
Accounts payable for fixed assets		37
Interest payable	11,511	4,653
Other financial payables		200
Total financial liabilities within trade and other payable	**27,587**	**19,890**
Wages and salaries payable	1,798	1,406
Advances received	7,682	944
Other accounts payable	5,088	1,399
Accruals for employees' unused vacations	899	1,020
Total trade and other payables	**43,054**	**24,659**

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 2016	31 December 2015
VAT payable	1,355	952
Payroll related taxes	2,119	1,069
Other taxes payable	656	97
Total other taxes payable	**4,130**	**2,118**

16 Interest bearing loans and borrowings

	31 December 2016	31 December 2015
Current		
Interest bearing loans due to banks	85,448	101,862
Loans from non-financial institutions	-	-
Bank overdrafts	435	512
Finance leases	1,410	1,036
Total current borrowings	**87,293**	**103,410**
Non-current		
Interest bearing loans due to banks	14,919	2,894
Finance leases	74	1,167
Total non-current borrowings	**14,993**	**4,061**
Total borrowings	**102,286**	**107,471**

At 31 December 2016 bank loans in the amount of EUR 13,054 thousand (2015: EUR 15,057 thousand) are classified as short-term. They relate to the renewable long-term credit lines with maturity dates in 2017. According to the loan agreements' terms the Company must repay the outstanding principal amount of the loan annually. The next day after repayment the Company is able to take the whole amount of credit limit again without any other restrictions.

As at 31 December 2016, 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 2016 stood at EUR 55,573 thousand, including an overdue amount of EUR 55,573 thousand is classified as current interest bearing loans due to banks (note 16).

As at 31 December 2016 the Group has overdue amount of EUR 2,208 thousand to PJSC "Bank Forum" due to the procedure for liquidation of PJSC "Bank Forum" and unwillingness of the Temporary Administration to settle the debt out-of-court (note 29).

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

	2016	2015
6 months or less	62,070	67,770
6-12 months	25,223	35,640
1-3 years	14,993	4,031
3-5 years		30
	102,286	**107,471**

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

	31 December 2016					31 December 2015				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	70,667	298,3	14,534	1,793	**87,293**	73,706	10,109	15,967	3,628	**103,410**
Average interest rate, %	7.70	22.10	15.26	9.00	**9.04**	8,93	24,59	15.28	13.74	**11.61**
1-5 years										
Outstanding balance, thousand EUR	2,894	11,249	850		**14,993**	2,894	-	49	1,118	**4,061**
Average interest rate, %	3.00	17.2	13.53		**14.25**	8.33	-	5.21	30.33	**14.35**

At 31 December 2016 bank borrowings are secured on properties, plant and equipment (note 11), inventories (note 8).

At 31 December 2015, due to the difficult economic and political situation in Ukraine (note 1), the Group has overdue amount of EUR 55,573 thousand in respect of Syndicate of international Banks loan facilities and EUR 9,567 thousand in respect of Credit Agricole Bank loan facilities. 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 on 16 November 2016 regarding the original contracts term prolongation till 31 December 17. Five production equipment objects are leased according to the original leasing contracts 37/0868/13, 37/0869/13, 37/0922/13, 37/0935/13, 37/0936/13. The total amount of debt under the leasing contracts stood 8 164 639.12 PLN as of 16 November 2016 and 7 992 641 PLN as of 31 December 2016. The amount of PLN 100 thousand should be repaid monthly according to the new agreement.

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 indebtedness under the leasing contracts should not exceed the amount of 6 792 360 PLN on 31 December 2017. The terms and conditions of further prolongation of leasing contracts should be discussed and agreed between Pekao Leasing and Debtor until 30 October 2017. 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.

17 Share capital

Share capital as at 31 December is as follows:

	31 December 2016		31 December 2015	
	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 2016 EUR 6,263 thousand was transferred to retained earnings (2015: EUR 6,754 thousand).

Change of Revaluation reserve as a result of the revaluation of property, plant and equipment in 2016 in the amount of EUR -10,658 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 2016 the Group had not declared dividends. The dividends paid in 2014 were EUR 2,187 thousand (EUR 0.08 per ordinary share).

21 Revenue

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

	2016	2015
Cheese & Butter	46,660	65,703
Whole-milk products	81,567	105,094
Ingredients	18,531	20,650
Total revenue	**146,758**	**191,447**

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

	2016	2015
Russia	94,282	114,296
Ukraine	38,264	56,759
Poland	10,190	11,223
Other	4,022	9,169
Total revenue	**146,758**	**191,447**

22 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR – (52) thousand (2015: EUR 105 thousand) represents the revaluation of cattle at fair value less costs to sell.

23 Cost of sales

	2016	2015
Raw and other materials	92,107	120,468
Wages and salaries	7,101	8,089
Depreciation	9,138	10,739
Transportation costs	2,263	4,784
Gas	3,088	4,556
Electricity	3,501	4,224
Social insurance contributions	1,678	2,376
Repairs of property, plant and equipment	1,728	2,158
Water	266	306
Other	4,258	4,328
Changes in finished goods and work in progress	464	1,765
Total cost of sales	**125,592**	**163,793**

24 Selling and distribution expenses

	2016	2015
Transportation costs	6,160	7,402
Security and other services	592	835
Marketing and advertising	1,105	1,265
Wages and salaries	2,769	3,884
Social insurance contributions	722	1,118
License fees	43	52
Rental costs	179	232
Depreciation and amortization	350	224
Other	1,159	787
Total selling expenses	**13,079**	**15,799**

25 Administrative expenses

	2016	2015
Wages and salaries	4,249	6,582
Social insurance contributions	886	1,354
Taxes and other charges	1,166	1,164
Representative charges	683	538
Other utilities	201	124
Bank charges	350	394
Repairs and maintenance	318	361
Depreciation and amortization	662	808
Consulting fees	1,837	1,113
Security and other services	673	465
Transportation costs	665	225
Property insurance	365	42
Rental costs	266	323
Communication	156	191
Office supplies	33	44
Other	485	737
Total administrative expenses	**12,995**	**14,465**

26 Other expenses, net

	2016	2015
Government grants recognized as income	1,158	1,079
Rental income	-	235
Gain from write off of accounts payable	190	2
Change in provision and write off of trade and other accounts receivable	(27)	(9,014)
Loss from settlement of accounts receivable, net	-	(14,267)
Depreciation	(129)	(39)
Other income/(expenses)	(755)	433
Loss from revaluation of non-current assets	(501)	(509)
Loss from disposal of non-current assets	(5)	(1,399)
Loss from disposal and write off of inventories	(818)	(502)
Penalties	(702)	(381)
Operational foreign exchange results, net	1 554	30
Change in provision and write off of VAT receivable	(500)	(42)
Total other (expenses)/income, net	**(535)**	**(24,374)**

27 Finance income

	2016	2015
Other finance income	-	-
Finance foreign exchange income, net	15	34
Bank deposits	3	384
Total finance income	**18**	**418**

28 Finance expenses

	2016	2015
Bank borrowings	11,960	13,018
Discounting of loans	(3,167)	-
Other borrowings	200	216
Finance leases	58	156
Finance foreign exchange expenses, net	22,174	32,870
Other finance expense	17	353
Total finance expenses	**31,242**	**46,613**

29 Income tax

	2016	2015
Current income tax expense	(848)	(1,766)
Deferred income tax benefit	(1,334)	1,544
Income tax expense	**(2,182)**	**(222)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2016 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2015: 18%), Russian profit tax was levied at the rate of 20%

(2015: 20%), Poland profit tax was levied at the rate of 19% (2015: 19%). In 2016 the tax rate for Panama operations was 0% (2014: 0%) on worldwide income.

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

	2016	2015
Loss before taxation, including	**(36,724)**	**(73,074)**
Loss of companies levied a single agricultural tax (Ukrainian operations)	(764)	(11,612)
Loss of Ukrainian companies	(21,581)	(41,718)
Profit of Russian companies	(4,000)	1,477
Loss of Poland companies	(3,090)	(4,544)
Loss before income tax of other companies	(5,875)	(11,957)
Declaration of dividends within the Group	(1,414)	(4,720)
Income tax charge at statutory rate of 18% (2013: 19%) (Ukrainian operations)	3,895	7,507
Income tax charge at statutory rate of 20% (Russian operations)	747	(295)
Income tax charge at statutory rate of 25.5% (Dutch operations)	(275)	(939)
Income tax charge at statutory rate of 19% (Poland operations)	587	863
Income tax charge at statutory rate of 10% (Cyprus operations)	455	35
Change in deferred income taxes resulting from reduction in tax rate	-	-
Provision in respect of irrecoverable deferred income tax asset	(1,133)	(1,404)
Reassessment of deferred income tax liability		34
Tax effect of items which are permanently not deductible or assessable for taxation purposes	(6,458)	(6,023)
Income tax expense	**(2,182)**	**(222)**

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:

	2016	2015
Deferred income tax liability	(11,771)	(14,706)
Deferred income tax asset	2,223	3,159
	(9,548)	(11,547)

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 2016	Deferred income tax income or expense recognized in profit or loss	Deferred income tax expense recognized in other comprehensive income	Currency Translation	31 December 2016
Recognized deferred income tax assets attributable to the following elements:					
Trade and other receivables	2,542	(29)	55	-	2,568
Inventories	121	(5)	(9)	-	107
Property, plant and equipment	29	(3)	(3)	-	23
Trade and other payables	1,416	17	(217)	-	1,216
Advances received	(3)			-	(3)
Tax losses carried forward	8,678	1,134	(240)	-	9,572
Less accrued provision	(6,855)	(1,134)	619	-	(7,370)
Deferred income	9	-	7	-	16
Other	96	(113)	(10)	-	(27)
Netting with deferred income tax liabilities	(2,874)	(939)	(66)	-	(3,879)
Deferred income tax assets	**3,159**	**(1,072)**	**136**	**-**	**2,223**
Recognized deferred income tax liabilities attributable to the following elements:					
Trade and other receivables	(1,825)	(1,167)	84	-	(2,908)
Advances paid and prepaid expenses	2	(570)	(29)	-	(597)
Property, plant and equipment	(15,757)	64	1,293	2,256	(12,144)
Netting with deferred income tax assets	2,874	938	66	-	3,878
Deferred income tax liabilities	**(14,706)**	**(735)**	**1,414**	**2,256**	**(11,771)**
Total deferred income tax assets and liabilities	**(11,547)**	**(1,807)**	**1,550**	**2,256**	**(9,548)**

Comparative information for 2015:

	1 January 2015	Deferred income tax income or expense recognized in profit or loss	Deferred income tax income or expense recognized in other comprehensive income	Currency Translation	31 December 2015
Recognized deferred income tax assets attributable to the following elements:					
Trade and other receivables	521	2,378	(357)	-	2,542
Inventories	142	13	(34)	-	121
Property, plant and equipment	29	8	(8)	-	29
Trade and other payables	3,334	(1,487)	(431)	-	1,416
Advances received	24,152	(19,114)	(5,041)	-	(3)
Financial lease liability	8,859	1,959	(2,140)	-	8,678
Tax losses carried forward	(7,580)	(1,406)	2,131	-	(6,855)
Less accrued provision	21	(10)	(2)	-	9
Deferred income	93	18	(15)	-	96
Other	(23,205)	15,625	4,706	-	(2,874)
Netting with deferred income tax liabilities	**6,366**	**(2,016)**	**(1,191)**	**-**	**3,159**
Deferred income tax assets					
Recognized deferred income tax liabilities attributable to the following elements:	(743)	(1,125)	43	-	(1,825)
Trade and other receivables	(24,083)	19,058	5,027	-	2
Advances paid and prepaid expenses	(16,385)	1,393	3,316	(4,081)	(15,757)
Property, plant and equipment	23,205	(15,625)	(4,706)	-	2,874
Netting with deferred income tax assets	**(18,006)**	**3,701**	**3,680**	**(4,081)**	**(14,706)**
Deferred income tax liabilities	**(11,640)**	**1,685**	**2,489**	**(4,081)**	**(11,547)**
Total deferred income tax assets and liabilities	**(5,274)**	**(331)**	**1,298**	**(4,081)**	**(8,388)**

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 2016 deferred income tax assets are shown net of provision for irrecoverable deferred income tax assets at the amount of EUR 9,591 thousand (2015: EUR 6,857 thousand).

30 Contingent and deferred liabilities

Litigation

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

DE Milkiland Ukraine, the subsidiary of the Company, participates in a case for the recovery of debt obligations, acting as a defendant. The subject of the lawsuit is a debt collection under the loan agreement for the total amount EUR 2,208 thousand as at 31 December 2016. 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 December 2016.

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 conduct.

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 December 2016 no additional obligations except for the direct liabilities under the loan contract were recognized in these financial statements.

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 circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. However, the interpretations of the relative authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Insurance policies

The Group insures all significant property. As at 31 December 2016, most of the Group's property is insured.

31 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 years ended 31 December 2016 and 2015 no changes were made in objectives, policies and procedures of the capital management.

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

The Group has external requirements to the capital in respect of syndicate loan received by the Company with outstanding balance as at 31 December 2016 in amount EUR 55,573 thousand:

- Tangible net worth should not at any time be less than EUR 105,000 thousand;
- the ratio of borrowing to EBITDA in respect of any relevant period will not exceed 3.5 to 1;
- the ratio of EBITDA to interest expenses in respect of any relevant period will not be less than 3.25 to 1.

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

As at 31 December 2016 the Group has not met requirement in respect of above mentioned covenants. A waiver of breach of covenants is being negotiated and Management is in process of loan restructuring negotiation with lenders as at the date of these financial statements approval (note 35).

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 2016. As at 31 December 2016, the full value of loan in amount EUR 55,573 thousand (USD 58,580 thousand in original currency) is classified as current interest bearing loans due to banks (note 16).

	2016	**2015**
Total borrowings	102,286	107,471
Less: cash and cash equivalents	(1,044)	(907)
Net debt	**101,242**	**106,564**
Total equity	6,914	35,941
Total capital	**108,156**	**142,505**

32 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is continuously monitored. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Foreign exchange risk

Foreign currency risk is a risk of losses resulting from adverse movements in different currency exchange rates against the Group's functional currency. Foreign currency risks arise from potential future commercial transactions in foreign currencies, and recognition of assets and liabilities denominated in a currency which is not a functional 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.

As of 31 December 2016 the Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR	USD	RUR	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	3,144	5,569	5,344	374	14,431
Cash and cash equivalents	4	122	107	783	28	1,044
Total financial assets	**4**	**3,266**	**5,676**	**6,127**	**402**	**15,475**
Financial Liabilities						
Loans and borrowings	-	70,237	16,309	12,596	3,144	102,286
Financial payables within trade and other payables	-	9,156	10,985	9,943	2,492	32,576
Total financial liabilities	**-**	**79,156**	**27,294**	**22,539**	**5,636**	**134,862**

Comparative information for 2015:

	EUR	USD	RUR	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	1,695	6,652	14,189	536	23,072
Cash and cash equivalents	-	151	240	448	68	907
Total financial assets	**-**	**1,846**	**6,892**	**14,637**	**604**	**23,979**
Financial Liabilities						
Loans and borrowings	-	76,601	16,017	10,107	4,746	107,471
Financial payables within trade and other payables	-	3,519	8,047	6,212	2,087	19,865
Total financial liabilities	**-**	**80,120**	**24,064**	**16,319**	**6,833**	**127,336**

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:

	2016	2015
USD strengthening by 10% (2014: 10%)	(1,725)	(1,725)
USD weakening by 10% (2014: 10%)	1,725	1,725
UAH strengthening by 10% (2014: 10%)	665	665
UAH weakening by 10% (2014: 10%)	(665)	(665)
RUR strengthening by 10% (2014: 10%)	-	-
RUR weakening by 10% (2014: 10%)	-	-

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 and Ukrainian, Russian and Polish banks. Analysis by credit quality of bank balances is as follows:

	2016	2015
Ratings by Moody's		
Ba2	45	95
B1	38	118
Bbb-	-	-
E	66	50
Unrated	868	609
Cash on hand	27	35
Total cash and cash equivalents	**1,044**	**907**

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 2016		31 December 2015	
Financial assets	Carrying value	Maximum exposure	Carrying value	Maximum exposure
Cash and cash equivalents	1,044	1,044	907	907
Trade and other receivables	14,431	14,431	14,863	14,863
	15,475	**15,475**	**15,770**	**15,770**

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 marker 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 2016 the Group had approximately 44% (2015: 42%) of its borrowings in fixed rate instruments and 56% (2015: 58%) 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 in 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 0)	27,587	-	-	-
Borrowings	62,070	25,223	14,993	-
Total	**89,657**	**25,223**	**14,993**	**-**

Comparative information at 31 December 2015 is as follows:

	Up to 6 months	**6-12 months**	**1 - 3 years**	**3 - 5 years**
Trade and other accounts payable (note 0)	19,890	-	-	-
Borrowings	67,770	35,640	4,031	30
Total	**87,660**	**35,640**	**4,031**	**30**

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

	2016	**2015**
Numerator		
Earnings used in basic and diluted EPS	(38,804)	(72,807)
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	31,250

34 Audit fees

The fees listed below relate to the procedures applied to the company and its consolidated group entities by BDO Audit & Assurance 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 BDO individual partnerships and legal entities, including their tax services and advisory groups:

Information for 2016:

	BDO Audit & Assurance B.V.	**BDO Accountants &Belasting adviseurs**	**Member firms/affiliates**	**Total**
Charged to administrative expenses				
Audit annual accounts	52	-	106	**158**
Total	**52**	**-**	**106**	**158**

Comparative information for 2015:

	BDO Audit & Assurance B.V.	**BDO Accountants &Belasting adviseurs**	**Member firms/affiliates**	**Total**
Charged to administrative expenses				
Audit annual accounts				
Tax advisory fees	68	-	103	**171**
Total	**68**	**-**	**103**	**171**

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 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 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 the amount of US $ 58 580 000, including outstanding interest and other due payments, as of 10 March 2017, to UniCredit Bank Austria AG and AO Raiffeisenbank.

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.

Entering of new markets

In 2016 Milkiland Ukraine with the support of Milkiland Intermarket, both the subsidiaries of Milkiland Group, has concluded first contract and started supplying dry milk products produced by the Group's Ukrainian facilities to the consumer in the PRC.

Targeted efforts of Milkiland Intermarket aimed on searching of the new markets for the Group's products, resulted the supplies to the promising markets of several countries, including Israel, Jordan. Previously, five production subsidiaries of Milkiland Ukraine, including Romny dairy combine and Mena cheese plant, passed relevant examinations and were cleared for export to China of cheese and different types of dry milk products by Certification and Accreditation Administration of the PRC.

On January, 1, 2016, Directorate Generale SANCO of European Commission published a list of Ukrainian dairy facilities that have passed relevant audits and were cleared to export to EU starting from 10 January 2016. Three production facilities controlled by two subsidiaries of Milkiland Group, namely, Romny dairy combine and Mena cheese plant, were included into this list.

From that time, Milkiland concentrates at full disposal of new export possibilities by supplying the Group's Ukrainian made dairy products to EU market, including within the quotas agreed under the FTZ between Ukraine and European Union.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 /Milkiland N.V./

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Current Assets			
Cash and cash equivalents		64	62
Amounts due from group companies	5	79,502	71,228
Other receivables and prepayments	5	48	34
Other taxes receivable	5	3	-
		76,617	**71,324**
Fixed assets			
Goodwill	3	1,490	1,193
Investments in subsidiaries	4	11,777	41,907
		13,267	**43,100**
TOTAL ASSETS		**92,884**	**114,424**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	21,833	22,077
Loans and borrowings	8	55,573	53,807
Other payables	7	9,672	3,884
Other taxes payables	7	1	6
		87,079	**79,774**
Non-Current Liabilities			
Loans and borrowings		-	-
		-	**-**
TOTAL LIABILITIES		**87,079**	**79,774**
Shareholder's equity			
Issued and paid-up share capital		3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		69,208	79,866
Currency translation reserve		(34,297)	(48,651)
Retained earnings and inappropriate result		(80,918)	(48,377)
Total equity		**5,508**	**34,650**
TOTAL LIABILITIES AND EQUITY		**92,884**	**114,424**

(All amounts in euro thousands unless otherwise stated)

	Notes	2016	2015
Revenue from Group companies		247	-
Administrative expenses	9	(957)	(986)
Other expenses		-	(2)
Operating loss		**(710)**	**(988)**
Finance income	10	5,302	5,128
Finance expenses	11	(5,255)	(5,178)
Dividends from subsidiaries		-	-
Profit / (loss) before income tax		**(663)**	**(1,038)**
Income tax		(87)	(236)
Share of profit of participating interests, after income tax		(38,057)	(71,533)
(Loss) / profit for the year		**(38,807)**	**(72,807)**

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.

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 1,490 thousand (2015: EUR 1,193 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 2016	31 December 2015
JSC Ostankino Dairy Combine, Russia	25,870	24,724
DE Milkiland Ukraine, Ukraine	(5,207)	19,452
LLC Milkiland RU, Russia	3,410	2,425
LLC Milkiland N.V, Ukraine	(1,962)	(1,811)
Milkiland Intermarket (CY) LTD, Cyprus	(2,824)	(2,601)
MLK Finance Limited, Cyprus	(3,919)	631
Milkiland EU sp. z.o.o., Poland	(3,591)	(913)
Total investments in participating interests	**11,777**	**41,907**

Movement during the year is the following:

	2016	2015
At 1 January	41,907	102,650
Profit for the year	(38,057)	(76,253)
Currency translation differences	15,885	2,112
Acquisition of minority shares in Ostankino Dairy Combine, Russia	-	-
Dividends declared by subsidiaries	(1,738)	(4,720)
Revaluation of PPE	(6,220)	18,118
Investments into subsidiaries	-	-
At 31 December	**11,777**	**41,907**

For the period from 1 January 2016 to 31 December 2016 the Company had the following direct subsidiaries:

Name	Country of incorporation	Share of ownership 31 December 2016	31 December 2015
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 Combine	Russia	100.0%	100.0%
LLC Milkiland RU	Russia	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%

5. Receivables

	31 December 2016	31 December 2015
Amounts due from group companies		
MLK Finance Limited	67,121	60,299
Milkiland EU sp. z.o.o.	11,619	10,477
DE Milkiland Ukraine	354	314
Milkiland Intermarket (CY) LTD	120	114
JSC Ostankino Dairy Combine, Russia	288	24
LLC Milkiland RU, Russia	-	-
Total amounts due from group companies	**79,502**	**71,228**
Other receivables and prepayments		
Advances issued	48	34
Other receivables	40	40
Allowance for doubtful debts	(40)	(40)
Total other receivables and prepayments	**48**	**34**
Taxes and social security		
Payroll related taxes	(2)	-
Input VAT	-	-
Total taxes receivable	**(2)**	**-**

At 31 December 2016 accounts receivable from MLK Finance Limited represented by EUR 55,573 thousand (2015: EUR 55,437 thousand) of loan issued to this company in October 2012 through transferring of loans previously issued to DE Milkiland Ukraine, PE Ros and LLC Malka-trans and accrued interest of EUR 4,434 thousand (2015: EUR 4,862 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 2015	**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**
Total comprehensive income for the year	-	-	(2,806)	18,118	(72,807)	(57,495)
Acquisition of minority shares						
Declaration of Dividends	-	-	-	-	-	-
Realised revaluation reserve, net of income tax	-	-	-	(6,754)	6,754	-
Balance as at 31 December 2015	**3,125**	**48,687**	**(48,651)**	**79,866**	**(48,377)**	**34,650**
Total comprehensive income for the year	-	-	14,354	(4,395)	(38,807)	(28,848)
Declaration of Dividends	-	-	-	-	-	-
Realised revaluation reserve, net of income tax	-	-	-	(6,263)	6,263	-
Balance as at 31 December 2016	**3,125**	**48,687**	**(34,297)**	**69,208**	**(80,918)**	**5,805**

7. Trade and other payables

	31 December 2016	31 December 2015
Amounts due to Group companies		
Milkiland Corporation	21,826	22,068
LLC Milkiland N.V	7	9
Total amounts due to Group companies	**21,833**	**22,077**
Other payables		
Other accounts payable	18	62
Trade payables	130	301
Interest payable	8,995	3 141
Wages and salaries payable	529	380
Total other payables	**9,672**	**3,884**
Other taxes payable		
Payroll related taxes	(1)	4
VAT payable		2
Total taxes payable	**(1)**	**6**

Accounts payable to Milkiland Corporation include a financial aid from Milkiland Corporation at the amount of EUR 21,826 thousand (2015: EUR 22,068 thousand). This financial aid to Milkiland Corporation is free of interest rates.

8. Loans and borrowings

Since the beginning of 2016 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.

The total sum of the Group's indebtedness to syndicate as at 31 December 2016 stood at USD 58,580 thousand, including an overdue amount of USD 58,580 thousand.

9. Administrative expenses

	2016	2015
Consultancy fee	477	54
Tax advisory and audit fee	1	81
Wages and salaries	358	672
Other expenses	121	179
Total administrative expenses	**957**	**986**

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

10. Finance income

	2016	2015
DE Milkiland Ukraine	-	-
MLK Finance Limited	4,632	4,398
Milkiland EU sp. z.o.o.	670	631
LLC Milkiland RU	-	-
Foreign exchange income, net	-	98
Bank deposits	-	1
Total finance income	**5,302**	**5,128**

11. Finance expenses

	2016	2015
Bank borrowings	5,492	5,137
Milkiland Corporation	-	-
Discounting of loans	-	-
Finance foreign exchange loss, net	(237)	-
Other finance expense	-	41
Total finance expenses	**5,255**	**5,178**

12. Remuneration of Board of Directors members

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

Board of Directors of Milkiland N.V.

Amsterdam, 19 May 2017

O. Rozhko	**A. Yurkevych**	**O. Yurkevych**
V. Rekov	**W. S. van Walt Meijer**	**G. Logush**

Independent auditor's report

To: the shareholders and Supervisory Board of Milkiland N.V.

Report on the audit of the financial statements 2016

Our opinion

We have audited the financial statements 2016 of Milkiland N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

WE HAVE AUDITED	OUR OPINION
The consolidated financial statements which comprise: 1. the consolidated statement of financial position as at 31 December 2016; 2. the following consolidated statements for 2016: statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion the enclosed consolidated financial statements give a true and fair view of the financial position of Milkiland N.V. as at 31 December 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
The company financial statements which comprise: 1. the company balance sheet as at 31 December 2016; 2. the company profit and loss account for 2016; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed company financial statements give a true and fair view of the financial position of Milkiland N.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Material uncertainty related to going concern

We draw your attention to note 1 regarding the economic environment in which the company operates. The Group conducts significant part of its operations in Ukraine. The Ukrainian economy continues to display low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

The significant deterioration of the political and economic relations of Ukraine with the Russian Federation have contributed to the decline of key economic indices, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings. From 1 January 2016 and up to 31 December 2016, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies. The NBU continued certain restrictions on purchase of foreign currencies, cross border settlements (including repayment of dividends), and also mandated obligatory conversion of foreign currency proceeds into UAH. Stabilization of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

Furthermore, due to the deterioration of the Hryvnia and Rubble against the US Dollar the company is no longer able to meet the covenants from the banks and scheduled loan repayments. Given the breach of covenants the bank are entitled to exercise certain rights among acceleration ofrepayment 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.

In the course of 2017 Milkiland has initiated the voluntary liquidation procedure for its OJSC "Ostankino Dairy" factory. The reason for this is that OJSC Bank "Vozrogdenie" has started a bankruptcy petition against OJSC "Ostankino Dairy". The events cause a possible material threat to the going concern ability of the company and its operations in the Moscow area. The ability of the company to continue its operations in Moscow is dependent on coming negotiations during the voluntary bankruptcy procedures and the ability of Milkiland to refinance the factory owned by OJSC "Ostankino Dairy".

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.

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 Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

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

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 1.800 thousand. The materiality is based on a revenue benchmark. We have the materiality at 0,65% of total revenue based on interim figures and reassessed the materiality based on the final figures. We have taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements. We agreed with the Supervisory Board that misstatements in excess of € 155 thousand, 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 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 when:

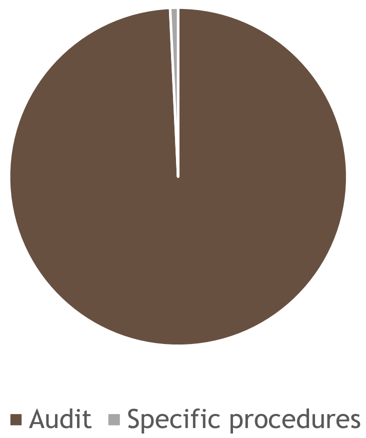
- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

To this extend we:

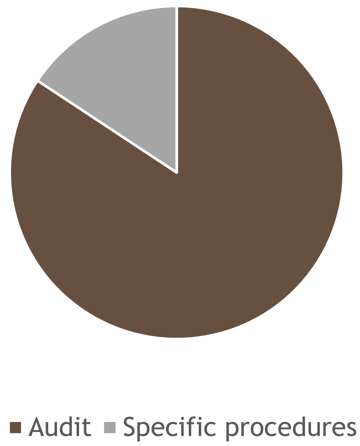
- performed audit procedures ourselves on group Milkiland N.V.;
- used the work of other BDO auditors in the Ukraine, the Russian Federation and in Poland. Given the significance of the Ukrainian and Russian entities we have performed file reviews on site on the work of BDO Ukraine and BDO Russia and we have reviewed the audit files of BDO Poland by means of a desk review, in order to obtain sufficient assurance to be able to rely on the work of our memberfirms.
- performed specific procedures or specific audit procedures at other group entities.

For clarification purposes we hereby show our scope:

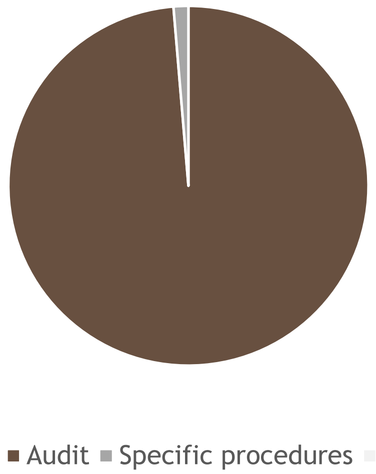
Group Audit - divided into revenue



Group Audit - divided into assets



Group Audit - divided into result



By performing the procedures mentioned above at group entities, 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 judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. 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.

Revenue Recognition	OUR AUDIT APPROACH
We consider revenue recognition to be a key audit matter as revenue is one of the key factors for performance of the entity and we also recognized the risk of fraud in revenue recognition. This is a presumed risk of material misstatement in accordance with International Standards on Auditing. We refer to Note 3 to the financial statements for further disclosure on revenue recognition.	In order to get sufficient audit evidence we, and our component auditors, have performed, amongst others, the following procedures: • Test the internal controls surrounding revenue recognition amongst which, segregation of duties, internal controls on access to ledgers and sub ledgers and internal control on authorization of sales and sales prices; • Performed substantive audit work on the appropriate allocation of revenue to the correct period, (cut off testing); • Performed stock taking procedures at year end; • Performed reconciliation between delivery of goods and revenue recognized. • Performed test work on manual journal entries posted around year end and regarding revenue in particular • Performed analytical work on revenue per month and per customer; • Performed a proof in total on the total fat

going into the production process and the total milk fat which is included in finished goods in order to gain comfort over the completeness of revenue.

Completeness of Discounts	OUR AUDIT APPROACH
Since Milkiland is supplier to a number of supermarket organizations, it is not uncommon to have discount arrangements in place. Not recognizing discounts in time and in the correct period, could in our opinion have material impact on net result of the company which is why we have determined that this is a key audit matter. Discounts are netted in revenue.	In order to address this key audit matter we, and our component auditors have, amongst other work steps, performed the following procedures: • Test internal controls surrounding recognition and registration of discounts; • Performed sample tests on contracts with supermarkets and retailers in order to assess the completeness of discounts recognized; • Performed post balance sheet date testing on any credit invoices issues or amounts paid to verify whether these related to discount arrangements for 2016; • Confirmations were send to all customers in order to verify the basis for the total discounts

Valuation of Property, plant and equipment	OUR AUDIT APPROACH
Valuation of property plant and Equipment is regarded as a key audit matter because of the high degree of subjectivity included in the determination of a potential impairment. Property, plant and equipment is carried at revalued cost. We refer to Note 12 to the financial statements for further disclosure on the valuation of Investment Property.	In 2016 the properties in Russia have been subject to appraisal by third party valuators. We and our component auditors have challenged the significant assumptions used by the appraisers and have tested the data used for preparing the valuations. Also, we have performed procedures regarding the independence and competence of the appraisers during our audit. For the Moscow plant, specific audit attention was devoted to testing the fair value of the property compared to the value in use, where we have come to the conclusion that the fair value exceeds the value in use and that thus the value in use is considered as fair value of the property. Furthermore we have assessed the adequacy of the disclosures relating to property, plant and equipment in the financial statements. Due to current economic circumstances in Ukraine there has been an impairment analysis on machinery in the Ukraine. As a result an impairment has been recognized. The component auditors have tested the assumptions used and we have verified these assumptions.

Exchange differences	OUR AUDIT APPROACH
Exchange differences are considered by us as a key audit matter because of the magnitude of the exchange differences due to the further decline of the Ukrainian Hryvnia and Russian Rubble in 2016 compared to the Euro and the US Dollar. We refer to Note 28 to the financial statements for further disclosure on exchange differences.	We, and our component auditors, have tested the correctness of currency translations in operations by sample testing. The appropriate calculation of the movement in the currency translation from functional currency to reporting currency has been tested by audit procedures on all translations included in the consolidation file prepared by management of Milkiland N.V. Furthermore we have assessed the adequacy of the disclosures relating to exchange differences in the financial statements.

Responsibilities of management and the Supervisory Board for the financial statements

Management is 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, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management 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. In this respect we refer to our paragraph regarding the uncertainties surrounding the ability of the entity to continue as a going concern.

The Supervisory Board 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 assignment 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 have detected all errors and fraud.

Misstatements can arise from errors or fraud 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.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, 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 errors, 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;

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's 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 the company ceasing to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- 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 Supervisory Board 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.

We provide the Supervisory Board 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 Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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 mentioning it is in the public interest.

Report on other legal and regulatory requirements

Other information

This report includes, next to the financial statements and our opinion thereon, other information. This other information consists of:

- five year summary of financial highlights and ratios
- ceo and chairman's statement
- the report of the board of directors (management board report)
- the corporate governance report
- the other information on page nr 3 to 7 and page 101

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code and the auditing standards we report that:

- we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the other information on page number 3 to 7 and page 101 as required by Part 9 of Book 2 of the Dutch Civil Code have been annexed.
- the management board report, to the extent we can assess, is consistent with the financial statements.
- we have nothing to report regarding the other information other than the management board report and the other information on page numbers 3 to 7 and 101.

Our opinion on the financial statements does not include the other information and we do not express an opinion or other assurance conclusion on the other information. As part of our audit on the financial statements and based on the auditing standards, it is our responsibility to read the other information. We have to assess whether there are any material inconsistencies between the other information and the financial statements. In order to do so, we use the obtained audit evidence of audit of the financial statements and the conclusions drawn in our audit. We also determine whether the other information in other ways seems to include material deficiencies. If we conclude, based on the procedures performed, that the other information includes a material deficiency, we are required to report this matter.

Management is responsible for the preparation of the other information including the preparation of the management board report and the other information on page **nr** in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Engagement

We were engaged by the Supervisory Board as auditor of Milkiland N.V. in October 2010 as of the audit for year 2010 and have operated as statutory auditor ever since that date.

Rotterdam, 19 May 2017

For and on behalf of BDO Audit & Assurance B.V.,

C. Alblas RA

CORPORATE INFORMATION

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