Annual Report

2015

Contents

FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	2015	2014	2013	2012	2011
Revenue	191,447	288,725	340,973	287,013	279,758
Cost of sales	(163,793)	(233,837)	(268,810)	(209,737)	(214,101)
Change in fair value of biological assets	105	1,405	1,305	934	1,859
Gross profit	**27,759**	**56,293**	**73,468**	**78,210**	**67,516**
Operating income (expense), net	(54,638)	(56,950)	(54,276)	(56,669)	(46,481)
Operating profit	(26,879)	(657)	19,192	21,541	21,035
Net finance expense and other non-operating income (expense)	(46,195)	(73,991)	(5,472)	(6,172)	(4,947)
Profit (loss) before tax	(73,074)	(74,648)	13,720	15,369	16,088
Income tax (expense) benefit	(222)	2,233	(2,060)	(1,808)	(1,291)
Net profit (loss)	(73,296)	(72,415)	11,660	13,561	14,797
Other comprehensive income (loss)	14,644	(6,241)	(11,005)	-	42,596
Total comprehensive income	(58,652)	(78,656)	655	13,037	42,596
Net profit (loss) attributable to equity holders of the parent company	(72,807)	(71,835)	10,835	12,771	14,391
Weighted average common shares outstanding, thousand	31,250	31,250	31,250	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	(232.98)	(229.87)	34.67	40.87	46.05

Consolidated balance sheet as at 31 December

EUR thousands	2015	2014	2013	2012	2011
Cash and cash equivalents	907	10,431	13,056	23,850	53,410
Trade and other receivables	19,506	50,615	62,088	48,236	28,994
Inventories	12,193	17,779	29,763	25,487	34,471
Other current assets	7,985	12,809	24,338	16,374	26,527
Total current assets	**40,591**	**91,634**	**129,245**	**113,947**	***143,402***
PPE	117,787	135,401	187,974	189,129	156,121
Deferred income tax assets	3,159	6,366	8,405	9,754	21,061
Other non-current assets	4,948	6,450	10,863	11,611	7,094
Total non-current assets	**145,959**	**148,217**	**207,242**	**210,494**	***184,276***
Total assets	**186,550**	**239,851**	**336,487**	**324,441**	**327,678**
Trade and other payables	24,659	22,535	26,948	15,120	18,430
Short-term loans and borrowings	103,410	96,389	79,284	50,526	67,153
Other current liabilities	2,469	2,447	2,510	2,104	2,369
Total current liabilities	**130,538**	**121,371**	**108,742**	**67,750**	***87,952***
Long-terms loans and borrowings	4,061	5,531	24,475	46,427	28,168
Deferred income tax liability	14,706	18,005	27,177	30,715	43,874
Other non-current liabilities	1,304	351	657	864	1,869
Total non-current liabilities	**20,071**	**23,887**	**52,309**	**78,006**	***73,911***
Total liabilities	**150,609**	**145,258**	**161,051**	**145,756**	**161,863**
Share capital	3,125	3,125	3,125	3,125	3,125
Revaluation and other reserves	79,902	71,344	79,162	94,474	98,873
Retained earnings	(48,377)	17,676	88,050	74,702	57,861
Total equity attributable to equity holders of the parent company	**34,650**	**92,145**	**170,337**	**172,301**	***159,859***
Non-controlling interests	1,291	2,448	5,099	6,384	5,956
Total equity	**35,941**	**94,593**	**175,436**	**178,685**	**165,815**
Total liabilities and equity	**186,550**	**239,851**	**336,487**	**324,441**	**327,678**

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

EUR thousands	2015	2014	2013	2012	2011
EBITDA	9,852	17,106	33,437	37,388	34,564
Net Debt	106,564	91,489	90,703	73,103	41,911
EBITDA Margin,%	5.1%	6%	10%	13%	12%
Net Profit Margin,%	-38.3%	-25%	3%	5%	5%
ROE	-211.5%	-78.59%	6.85%	7.87%	9.26%
ROA	-181%	-79%	9%	12%	10%
Market Capitalization	10,780	10,851	94,190	110,837	106,250
Enterprise Value (EV)	118,635	104,788	189,992	190,324	154,117
EV / EBITDA	12.04	6.13	5.68	5.09	4.46
EV / SALES	0.62	0.36	0.56	0.66	0.55
Net Debt / Equity	2.96	0.97	0.52	0.41	0.25
Net Debt / EBITDA	10.82	5.35	2.71	1.96	1.21
Net Debt / Sales	0.56	0.32	0.27	0.25	0.15
Total Debt Ratio	0.81	0.61	0.48	0.45	0.49
Debt / Equity	4.19	1.54	0.92	0.82	0.98
Current Ratio	0.31	0.75	1.19	1.68	1.63
Quick Ratio	0.22	0.61	0.91	1.31	1.24
P/E	(0.15)	(0.15)	8.69	8.68	7.38
EPS	(232.98)	(229.87)	34.67	40.87	46.05

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, being the international Group with production assets in Ukraine, Russia and Poland, for several years has been in the epicentre of major geo-political changes, and thus facing challenges on the back of economic and political tension between Russia and European countries triggered the economic crisis in our core markets in Russia and Ukraine.

While Milkiland's business model remains strong for local sales, intra-region exports, that 2 years ago comprised significant share of the Group's turnover, decreased dramatically. Also, extensive devaluation of local currencies in Russia and Ukraine hit the Group's revenues in EUR terms. The above created necessity to find new exports destinations, adapt to changing local market conditions and also focus on the bottom line in the first place.

The major unfavourable factors influencing Milkiland in 2015 were continued stagnation of consumer markets and free fall of local currencies in Russia and Ukraine, decline in global prices for dry milk commodity products, and severe trade restrictions between Russia and other world. In particular, Russian GDP contracted by 3.7% in 2015, Russian Rouble devalued by 59%, mainly due to bearish oil market. In the same year, Ukrainian real GDP shrunk almost 10%, on the back of full-scale economical and financial crisis, capital outflow, banking system in problem, UAH devaluation by 35% and decline of real income of population by more than 22%.

These factors combined resulted in one-third slash in the Group's revenues to EUR 191 million, and EBITDA decrease by 42% to EUR 9.9 million.

Our take to address these challenges was to focus on local operations and cost improvements, as well as searching for new markets, to compensate for blow in revenues caused by borders closure with Russia, and bad shape of Milkiland's core consumer markets.

In 2015 Russian entities of Milkiland managed a moderate advance, both in revenue and profitability. Our Moscow-based Ostankino Dairy Combine added 4% to it RUB revenues, while EBITDA margin improved by 1.8pp y-o-y to 8.5%. The Group's local cheese production in Russia increased in volumes by more than one third on y-o-y basis to c. 5.0 thousand tons.

In Ukraine, Milkiland has slightly improved its market share in cheese segment. The Group did fundamental job to decrease its running costs and overheads, with production base consolidated at best performing plants and several non-core farming assets put up for sale. The main achievement of the Group in Ukraine was qualification of its plants for new exports markets, namely China and EU. While there was virtually no impact on business in 2015, in coming years our Company expects growing sales of cheese, butter and dry milk product to these new markets.

In the year 2016 the Group plans to receive first results of extensive efforts made in order to rebalance the business and establish the new business model, better adapted to recent geo-political and economic developments. Our Poland based Ostrowia plant has achieved break-even level by the end of 2015 and in 2016 is expected to contribute to the Company's top-line and EBITDA. Ukraine's entrance to free trade zone with EU opens for Ostrowia opportunities to supply cheese to Ukraine, especially the types that are not produced by Ukrainian companies.

The Group’s management remains confident to continue further development of the unique international business of Milkiland controlled by Kazakh, Polish and other EU, US and also Ukrainian investors. We hope that the years of hard obstacles are already gone while recovery and steady growth are now returning to our business universe.

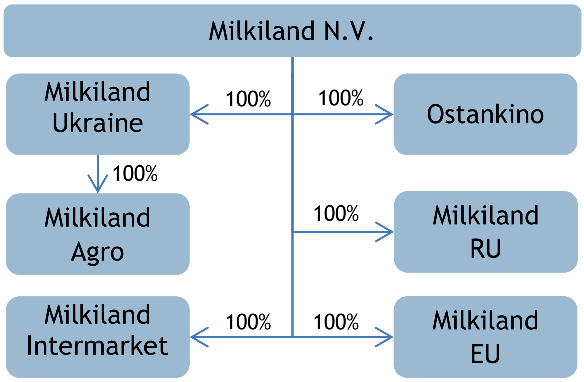
Oleg Rozhko,
Chairman of the Board

Anatoliy Yurkevych,
Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2015

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 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 7,000 cattle livestock, including about 2,640 milking cows. The total land area cultivated by Milkiland Agro is about 23,000 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.

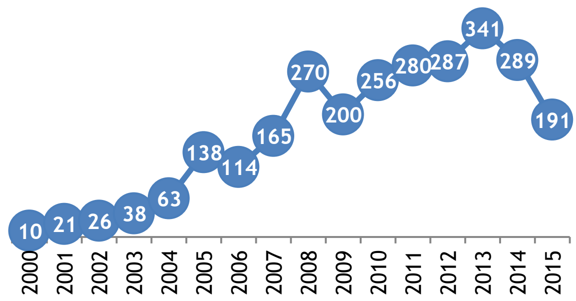
In 2012, the Group launched its EU business, having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. Ostrowia is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15 kt p.a.), curd, processed cheese and yoghurts.

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.

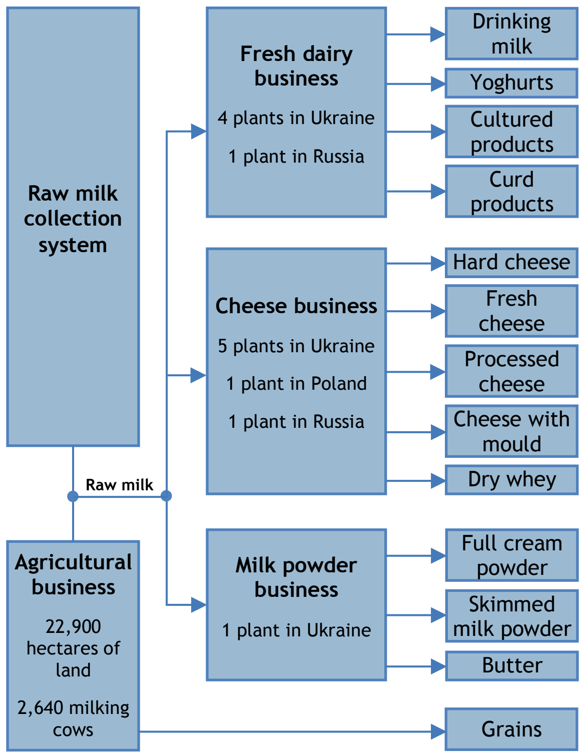
The Group's total annual milk processing capacity exceeds 1.0 million tons; product line consists of whole milk products, various types of cheese, butter, and dry milk products.

In 2015, Milkiland's consolidated revenues was EUR 191 million, representing c. 34% decrease compared to 2014 caused mainly by operational currencies devaluation to euro, deterioration of consumers demand for dairy products caused by decreased disposable income in the Group's main operational markets.

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 significantly and exceeded 2,600 as of end-2015. In 2015, per cow milk yield improved by 9% on the back of the cut in the less productive cows headcount. As a result, the in-house milk production remained stable compared to 2014 result. In 2015, Milkiland Agro provided for c. 9% 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 27% of the Group's raw milk intake in Ukraine.

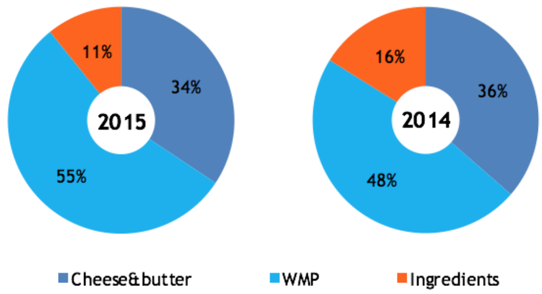
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines.

Whole milk dairy and cheese are Milkiland's core product segments providing together c.89% of the Group's revenues in 2015.

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 acquired in 2012. Also, Milkiland in 2012 conducted acquisition of small cheese plant in Russia (Kursk region); the deal was closed in February 2013. 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 2014-2015



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. After integrating Ostrowia in 2012, Milkiland significantly improved its positions in dry milk products, since Ostrowia 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 11% in the total revenue in 2015.

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 accounting for over 25% of the Group's total revenues in 2015.

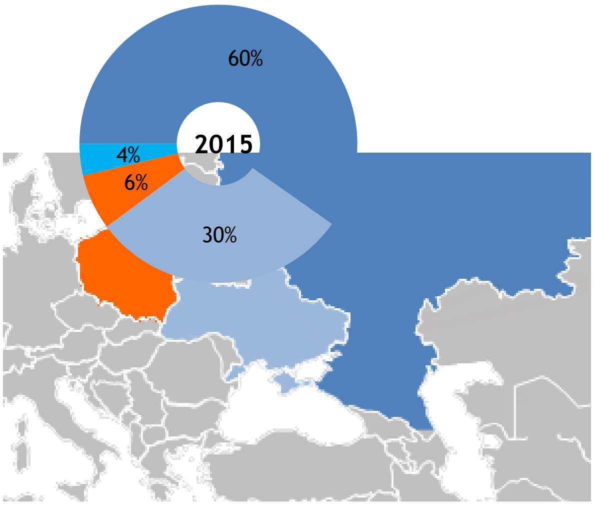
Ostankinskoye is a traditional brand for whole milk products produced by Ostankino Dairy Combine, well known by Moscow city and Russian consumers. The Group also markets its products in Russia under the economy brand 36 kopeyek. Both Russian brands, Ostankinskoye and 36 kopeyek, increased its combined share of the Group's total revenues to 27% over 2015, up c.3pp y-o-y.

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

In 2015, all key brands of the Group were expended with new products, e.g. 10 new cheese products and 17 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 2015



In terms of geographical revenue breakdown, Russia is the largest market for Milkiland contributing about 60% to the Group's total consolidated revenue in 2015. In Russia, the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 30% of the Group's revenue and include all range of dairy products. Poland secured 6% of the Group's total revenue in 2015, while other countries account for 4%.

The geographical breakdown somewhat shifted in 2015 from other markets to Russia in response to the Group's strategy to develop sales on its key operational markets in expense of exports. For more information, refer to *Key Products, Production and Sales* section.

Key Products, Production and Sales

In 2015, 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 2015 among major suppliers expanded by 1% y-o-y; a sharp correction from the high 4% growth registered in 2014. Low milk prices restrain growth in milk output, which is forecast to increase modestly by less than 1% y-o-y in 2016 declining in Oceania but offset by projected gains of milk production in the EU, Argentina and the United States.

Russia's milk production totalled 30.0 million tons in 2015, down almost 2% y-o-y. Although dairy farmers in Russia are facing low milk prices, high interest rates, and a lack of capital, output per cow has been improving consistently for the past several years as the smaller, inefficient, non-commercial household farmers exit the industry. In mid-2015, the Russian government reported that these small household farms still accounted for 47% of the milking herd, with the balance held by large agricultural establishments (40%) and small private farms (13%). State aid, which totalled about $4.0 billion to all agricultural producers, remains a critical factor in supporting the dairy sector and in meeting import substitution goals for dairy products. This level of aid is expected to continue in 2016. Although the dairy herd is expected to contract by 2% y-o-y in 2016, productivity is forecast to improve resulting in only a marginal decline in milk output.

Ukraine's 2015 milk output reached 10.6 million tons, down 4% 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 75% of total milking cows herd in the country.

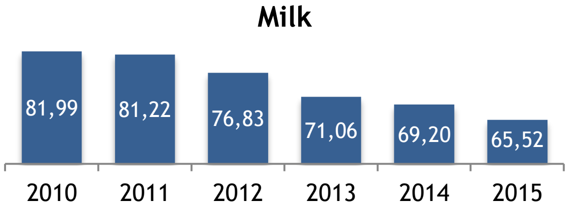
Milkiland defines its home market as former Soviet Union region, namely Russia and Ukraine. This is one of the largest food markets globally, ranking No.5 after China, EU, USA, and India, and a very dynamic one with strong growth fundamentals. Starting from 2013, upon launching of Ostrowia operations,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

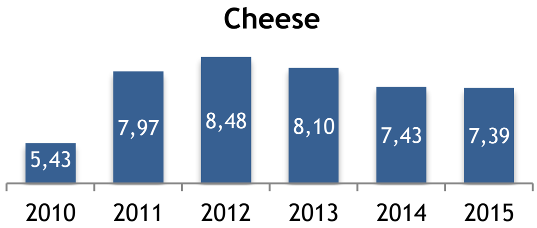
While per capita consumption of dairy products in Russia and Ukraine is significantly lower than in the developed EU countries, there are a lot of opportunities for using local competence to develop in these countries.

From the macroeconomic perspective, 2015 was quite challenging year for both key markets of the Group. Real disposable income in Russia declined by the estimated 12% y-o-y while it dropped by 22% y-o-y in Ukraine. This resulted in overall consumer consumption decline for the reported year.

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

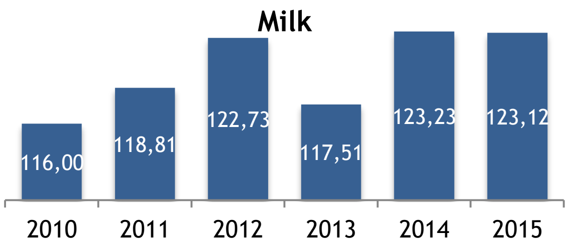


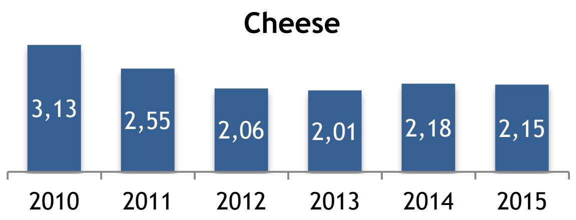


Source: http://www.clal.it

In Ukraine, drinking milk represents about half of the total dairy products consumption. Only 49% of total raw milk produced went into processing in 2015. Cheese and butter represent another 28% of the total dairy consumption. In 2015, 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.

Per capita consumption of dairy products in Ukraine, kg





Source: http://www.clal.it

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, 2015 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. The expected shift to production of whole milk products from declined cheese production for export did not materialize over 2015. Industry statistics showed that Ukrainian market for whole milk products shrunk by c. 10% y-o-y to 0.9 million tons in 2015.

On the supply side, raw milk prices grew by c. 9% 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.

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 0.3% y-o-y in 2015. Still, the decline in disposable income caused consumer diet shift towards comparably lower priced whole milk products and resulted in declined consumption of cheese (-2% y-o-y) and butter (-3% y-o-y) in 2015. Industry statistics reported Russian whole milk products output grew 2% y-o-y to about 10.5 million tons in 2015. Even with trade barriers imposed Russia remained the importer of whole milk products in 2015 although imports declined by 15 % y-o-y and accounted for c. 2% of total whole milk products consumption for the year. Belarus delivered 97% of overall whole milk products import to Russia in 2015.

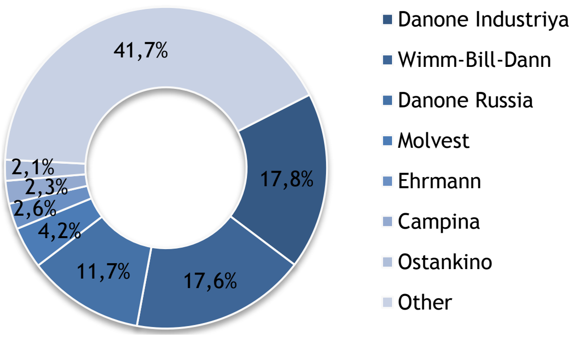
On the supply side, prices for raw milk in Russia grew on average by over 5% y-o-y in Rouble terms while the average price for WMP increased by 14% y-o-y.

Russian embargo also created additional pressure on the local EU market where the raw milk price continued its drop since late 2014 as additional volumes of milk became available for processing. In Poland, the average effective raw milk price was 14% lower y-o-y in 2015.

The Group's total 2015 whole-milk products volume sales decreased by 10%, mainly on the back of decline of those products sales in Ukraine.

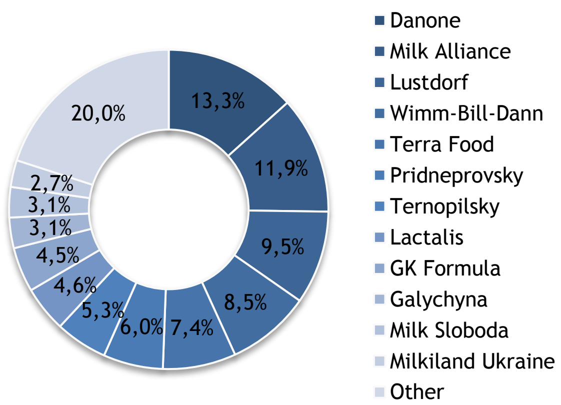
The Group's subsidiaries in Russia benefitted from import substitution, retained its strong market share and improved profitability in the WMP segment. As the result, Ostankino accounted for over 2% of WMP segment sales and proved its TOP-10 player position in this segment of Russian dairy market with 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 whole milk products market by company in 2015, %



In Ukraine, the Group retained its positions of a TOP-12 player in the segment with the market share of about 3%. Milkiland is particularly strong in the northern regions of the country where its market share is over 25%.

Ukraine's whole milk products market by company in 2015, %



Because of a considerable devaluation of the Group's operational currencies, the Group's total revenues in the fresh dairy segment declined by c. 23% and amounted to c. EUR 105 million in 2015. The segment's EBITDA decreased to EUR 8.6 million compared to EUR 9.8 million or by c. 12% on y-o-y basis. However, the segment's EBITDA margin improved by 1pp y-o-y to 8.2% for the year.

The share of fresh dairy in the Group's consolidated revenues stood at c. 55%, 7 pp. more than in 2014.

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 2015, cheese market in Russia was constrained by supply, as trade restrictions imposed by government on the EU and Ukrainian producers cut imports, while local cheese production stagnated. As a result, the total Russian cheese consumption decreased by c. 3% y-o-y to a six-year low of approximately 1.0 million tons (*source: USDA estimations*) while production grew 12% to 850,000 tons but the short availability of quality drinking milk has been a constraining factor. Imports of cheese to Russia covered primarily by Belarus fell significantly by 41% y-o-y to 205,000 tons in 2015 and accounted for c. 20% of total consumption. The market observed consumer diet changes towards lower priced cheese products such as processed cheese. Thus, consumption of hard cheese in Russia decreased by a significant 10% y-o-y in 2015 while consumption of soft processed cheese increased by 12% y-o-y over the year. Consequently, cheese processors have been producing greater volumes of lower-quality and lower-priced cheese using greater amounts of non-dairy fat substitutes such as palm oil.

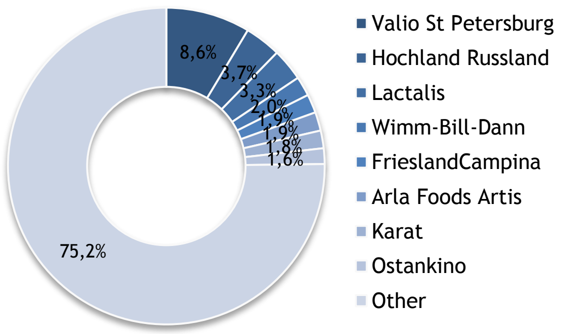
Rising prices for raw milk and shortage of imported cheese in Russia triggered an increase in cheese prices. As a result, the average market cheese price in Russia grew 14% y-o-y in Rouble terms in 2015. In particular, hard cheese price increased by 8% y-o-y while processed cheese price boosted 18% y-o-y. In absolute terms, processed cheese price remained 34% cheaper than hard cheese in Russia supporting consumer diet changes.

In Ukraine, per capita cheese consumption remained stable in 2015. The total domestic sales of hard cheese declined only slightly by c.1% y-o-y to about 114,300 tons in 2015 while processed cheese market sales declined significantly by 12% y-o-y to over 43,000 tons, unlike the trend in Russia. Exports of cheese from Ukraine totaled only c. 15,000 tons in 2015, further down 23% y-o-y due to Russian embargo.

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 30% y-o-y in Hryvnia terms in 2015.

In 2015, the Group experienced an overall drop in the cheese sales in volume terms by c. 22% on y-o-y basis that was mainly triggered by c. 40% decline in cheese sales volumes in Russia due to Russian dairy import restrictions. 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 more than one third on y-o-y basis to c. 5.0 thousand tons. The Group remains in Top-5 cheese producers in Ukraine and in Top-10 cheese producers in Russia in 2015.

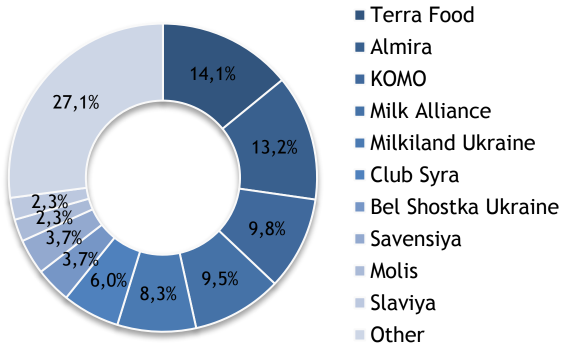
Russia's cheese market by company in 2015, %



Due to the current import ban of dairy products from a number of Western suppliers, Russia's imports of butter was estimated at 85,000 tons, a sharp drop of 38% y-o-y. Domestic production of butter increased by 5% over last year, official reports indicated the increased use of non-dairy substitutes (primarily palm oil) in butter. Russia's average price for butter increased c. 11% y-o-y in Rouble terms.

Ukraine's domestic butter sales declined by 15% y-o-y in 2015 on the back of lower exports and weak demand. Ukraine's average price for butter boosted 20% y-o-y in Hryvnia terms in 2015.

Ukraine's cheese market by company in 2015, %



In 2015, Milkiland's cheese & butter segment revenues declined by 37% y-o-y to EUR 65.6 million depressed by national currency devaluation on both key markets. The segment's EBITDA stood at c. EUR 3.4 million, representing a 31% annual decrease. EBITDA margin improved from 4.7% in 2014 to 5.1% in 2015 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 will likely not improve significantly in 2016.

In 2015, global milk powder prices deteriorated 42% y-o-y to $2,250 per ton on average.

Russia's 2015 imports of non-fat dry milk products recovered 17% y-o-y from five-year low of 2014 caused by trade barriers. Still, such recovery was not enough to push global SMP and WMP prices higher over the reported year. This improvement, coupled with lower demand for these products from China (-23% y-o-y in 2015) triggered a price decline from historically high levels of early 2014.

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 2015, 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.

In 2015, the Group decreased its sales of ingredients in volume and value terms.

As the result, Milkiland's revenues in this segment declined by 56% and amounted to EUR 20.7 million. Ingredients sales reported negative profitability of EUR 0.5 million of EBITDA, representing -2.3% EBITDA margin (down from positive EUR 4.8 million and 10.4% respectively in 2014).

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2015 and 2014 in thousands Euro.

Selected financial data

	2015	2014
I. Revenues	191,447	288,725
II. Operating profit	(26,879)	(657)
III. Profit before tax	(73,074)	(74,648)
IV. Net profit	(73,296)	(72,415)
V. Cash flows provided by operating activities	(5,849)	7,305
VI. Cash flows used in investing activities	(3,203)	(5,899)
VII. Cash flows provided by financing activities	546	(2,206)
VIII. Total net cash flow	(8,506)	(800)
IX. Total assets	186,550	239,851
X. Current liabilities	130,538	121,371
XI. Non-current liabilities	20,071	23,887
XII. Share capital	3,125	3,125
XIII. Total equity	35,941	94,593
XIV. Weighted average number of shares	31,250	31,250
XV. Profit (loss) per ordinary share, EUR cents	(232.98)	(229.87)

Income Statement

Summary statement of comprehensive income, '000 EUR

	2015	2014
Revenue	191,447	288,725
Change in fair value of biological assets	105	1,405
Cost of sales	(163,793)	(233,837)
Gross profit	27,759	56,293
Operating income (expense), net	(54,638)	(56,950)
Operating profit	(26,879)	(657)
Net finance expense and other non-operating expense	(46,195)	(73,991)
Profit before tax	(73,074)	(74,648)
Income tax expense	(222)	2,233
Net profit	**(73,296)**	**(72,415)**
Other comprehensive loss	14,644	(6,241)
Total comprehensive income	**(58,652)**	**(78,656)**
Net profit attributable to equity holders of the parent company	**(72,807)**	**(71,835)**
Weighted average number of shares (in millions), as of December 31	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**(232.98)**	**(229.87)**

Revenue

Local currencies depreciation in the Groups' core operational markets of Ukraine and Russia (by 35% and 59%, respectively) against the presentation currency, namely EUR, on the back of deterioration of macro-economic situation in Ukraine and continuing economic stagnation in Russia were main reasons behind the Group's revenue contraction in 2015. Russian dairy import limitations, which were still in place in 2015, also affected the Group's revenues, in particular, by elimination of the cheese supplies from Ukraine to Russia. As a result, in 2015, the Group's revenue declined c. 34% to EUR 191.5 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 8pp y-o-y to 55% of total Milkiland's revenues in 2015.

The table below sets forth an overview of the revenue generated by the Group in 2014 and 2015 by product group.

Breakdown of the Group's consolidated revenue by product in 2015-2014

	2015		2014		2015 vs. 2014	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	65,703	34%	105,110	36%	(39,407)	-37%
Whole milk products	105,094	55%	137,026	47%	(31,932)	-23%
Ingredients and other	20,650	11%	46,589	16%	(25,939)	-56%
Total	**191,447**	100.0%	**288,725**	100.0%	**(97,278)**	-33.7%

Sales of cheese and butter decreased by 37% y-o-y to EUR 65.7 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. Thus, the Group's cheese volume sales in Ukraine remained stable in 2015. However, cheese volume sales in Russia fell 40% y-o-y caused primarily by changes in consumers' diet and higher demand for low-priced processed cheese where the Group is not active. Milkiland's cheese export sales from Ukraine declined 60% y-o-y in value terms due to closure of Russian market and decreased demand from Kazakhstan.

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

Sales of whole milk products declined 23% y-o-y to EUR 105.1 million on a back of local currency devaluation in Russia and Ukraine, and represented approx. 55% of the total consolidated revenue in 2015 vs. approx. 42% in 2012. In terms of volume sales, segment decreased by 10%, with Ostankino showing the best result (-7% y-o-y) while Milkiland Ukraine segment volume sales fell 19% y-o-y in 2015.

Ostankino, the Group's main subsidiary in Russia, experienced moderate advance in sales in local currencies terms by 4% y-o-y in RUB terms (22% y-o-y in EUR terms due to RUB devaluation effect). This facility holds the position of main revenue contributor of the Group in 2015, delivering over 50% of sales in value terms. Ostankino also delivered highest profitability among other Group's subsidiaries with 2015 EBITDA margin of 8.5% (+1.8pp y-o-y). Better pricing for fresh dairy products in Russia triggered by Russian import limitations together with selling additional volumes of higher value added products stood behind this result.

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

Sales in the Ingredients segment contracted by 56% to EUR 20.7 million due to quite weak demand on the international markets. Global prices for these products, in particular, dry milk powder and skimmed milk powder, kept declining throughout 2015, which led to noticeable decline of sales in this segment in value terms. Thus, because of low profitability of these products, the Group reduced their output to minimum over the reported year.

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

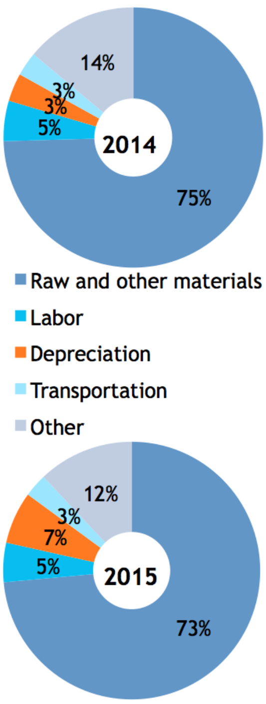
Cost of sales

The Group's consolidated cost of sales decreased 30% to EUR 163.8 million; the main driver was 31%-deflated raw materials costs (from EUR 174.3 million to EUR 120.5 million), due to devaluated key operational currencies.

While farm-gate prices in both Russia and Ukraine grew by 5% and 9% respectively, the devaluation of national currencies resulted in a drop in the average effective price for raw milk. For more information on milk markets, refer section *Key Products, Production and Sales*.

In 2015, 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 2014-2015



In 2015, labour costs dropped by 31% to EUR 8.1 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 (-38% 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 1.8 million in the costs of sales.

Breakdown of the Group's cost of sales in 2015-2014, '000 EUR

	2015		2014	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	120,468	62.9%	174,317	60.4%
Wages and salaries	8,089	4.2%	11,742	4.1%
Depreciation	10,739	5.6%	8,167	2.8%
Transportation costs	4,784	2.5%	6,996	2.4%
Gas	4,556	2.4%	7,727	2.7%
Other	15,157	7.9%	24,888	8.6%
Total	163,793	85.6%	233,837	81.0%

Gross profit

As a result of decreasing top line and a slightly slower decrease in the costs of sales, Milkiland's gross profit decreased by 56% y-o-y to EUR 27.8 million. Gross profit margin decreased from 19.5% in 2014 to 14.5% in 2015.

Selling and distribution expense

The Group's selling and distribution expenses decreased by 33% from EUR 23.4 million in 2014 to EUR 15.8 million in 2015 and represented 8.3% in the consolidated revenue in 2015 vs. 8.1% in 2014. 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 also slower than other expenses implying the Group increased wages and social insurance payments over the year and offset some of the operational currencies devaluation. Security and other services declined significantly as well as marketing and advertising expenses, mostly in line with operational currencies devaluation.

Administrative expense

The Group's administrative expenses decreased from EUR 23.7 million in 2014 to EUR 14.5 million in 2015, representing 7.6% in the consolidated revenue in 2015 vs. 8.2% in 2014. A 32% decrease in labour costs is associated with the operational currencies devaluation. Social insurance contributions dropped even more than the wages and salaries (-41% y-o-y).

Other expenses, net

In 2015, the Group received EUR 24.4 million other operating expense instead of EUR 9.9 million other income in 2014. The key reason for this is an increase in provision and write off of trade and other accounts receivable due to impaired debts to EUR 23.3 million compared to EUR 1.8 million in 2014 and loss on received investment property.

Operating profit and EBITDA

Despite optimization in operating costs, lower gross profit resulted in the Group's operating loss of EUR 26.9 million and in a 42% decrease in the consolidated EBITDA to EUR 9.9 million. EBITDA margin was depressed from 5.9% to 5.1% in 2015.

Finance expense

In 2015, financial expense related to bank borrowings grew 29% as a result of a slight increase in loan portfolio (+5% y-o-y) and average interest rate increase. The devaluation of Ukrainian Hryvnia and Russian rouble against euro and US dollar resulted in a non-cash foreign exchange loss of EUR 32.8 million in 2015, down from EUR 65.1 million in 2014.

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 73.1 million. Net loss for 2015 accounted for EUR 73.3 million.

Financial Position

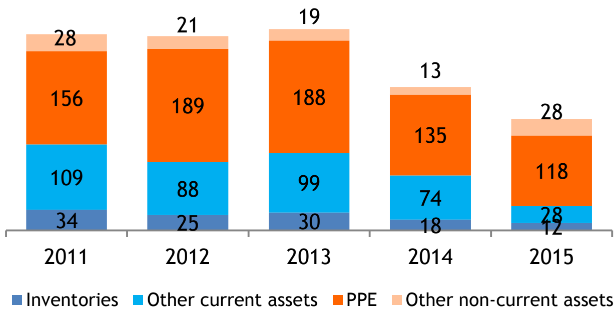
Summary balance sheet as at December 31, ‘000 EUR

	2015	2014
Cash and cash equivalents	907	10,431
Trade and other receivables	19,506	50,615
Inventories	12,193	17,779
Current biological assets	1,621	1,901
Current income tax assets	947	367
Other taxes receivable	5,417	10,541
Total current assets	***40,591***	***91,634***
Goodwill	1,746	2,147
PPE	117,787	135,401
Investment property	20,065	-
Non-current biological assets	1,507	2,017
Other intangible assets	1,695	2,286
Deferred income tax assets	3,159	6,366
Total non-current assets	***145,959***	***148,217***
Total assets	**186,550**	**239,851**
Trade and other payables	24,659	22,535
Current income tax liabilities	351	384
Other taxes payable	2,118	2,063
Short-term loans and borrowings	103,410	96,389
Total current liabilities	***130,538***	***121,371***
Long-term loans and borrowings	4,061	5,531
Deferred income tax liability	14,706	18,005
Other non-current liabilities	1,304	351
Total non-current liabilities	***20,071***	***23,887***
Total liabilities	**150,609**	**145,258**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	79,866	68,502
Currency translation reserve	(48,651)	(45,845)
Retained earnings	(48,377)	17,676
Total equity attributable to equity holders of the parent company	***34,650***	***92,145***
Non-controlling interests	1,291	2,448
Total equity	**35,941**	**94,593**
Total liabilities and equity	**186,550**	**239,851**

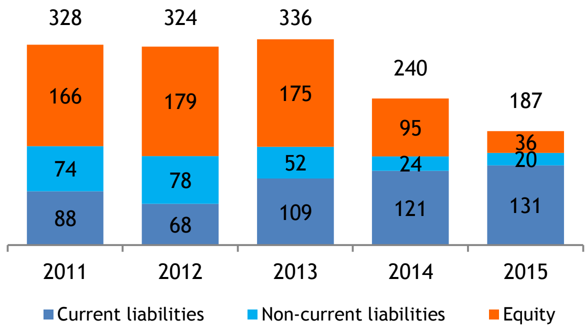
Capital structure and solvency analysis information

	2015	2014
Total debt ratio	0.81	0.61
Debt to equity ratio	4.19	1.54
Net debt/EBITDA	10.82	5.35
Net debt/sales	0.56	0.32

Assets structure in 2011-2015, EUR million



Equity and liabilities of the Group in 2011-2015, EUR million



Assets

The Group's total assets decreased by 22% from EUR 239.9 million as of December 31, 2014, to EUR 186.6 million as of December 31, 2015.

During 2015 cash and cash equivalents decreased from EUR 10.4 million to EUR 0.9 million (91%), after withdrawal of short-term deposits.

The devaluation of national currencies in the countries where a large part of the Group's production assets is located led to a decreased in the euro-denominated inventories. Another reason for this 22% drop was a cut in production volumes due to the closure of the Russian market for Ukrainian and EU producers. Accounts receivable decreased by 39%, to EUR 14.7 million, over the year. Total trade accounts receivable declined by 61% to EUR 19.5 million due to the lower sales.

Other taxes receivable comprise mainly export VAT receivable from the Ukrainian government. In 2015, VAT receivable decreased by 47% due to a decrease in export sales and reorientation to the local markets.

Non-current assets decreased by 2% to EUR 146.0 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 20.1 million in 2015.

Current assets represented 22% of the total assets, non-current assets, 78% (62% as on December 31, 2014).

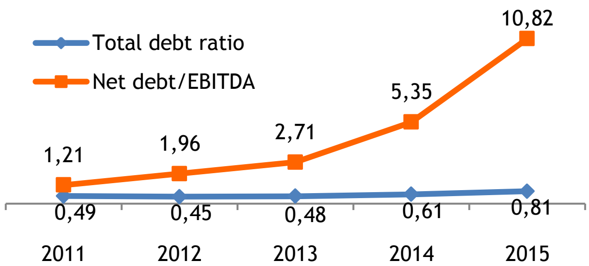
Liabilities and equity

The Group's total liabilities increased by 4% over 2015,from EUR 145.3 million to EUR 150.6 million as of December 31, 2015. Current liabilities grew 8% to EUR 130.5 million, while non-current liabilities dropped by 16% to EUR 20.1 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. The average interest rate for short-term loans grew from 10.92% to 11.61%, for long-term loans grew from 7.53% to 14.35%.

Net debt of the Group stood at EUR 106.6 million as of December 31, 2015. Total Debt Ratio constituted 0.81 vs. 0.61 in 2014. Net Debt/EBITDA ratio increased from 5.35 to 10.82 due to increased indebtedness and lower euro-denominated EBITDA.

For more information on loans and borrowings contracted by the Group, refer to *note 16 to the Consolidated Financial Statements* and section *Material Factors and Events*.

Debt ratios of the Group in 2011-2015



Currency translation reserve did not change much over the reported year (EUR -48.7 million on December 31, 2015 vs. EUR -45.8 a year before).

However, the EUR 48.4 million losses in retained earnings contributed to c. 62% 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 70% of the total equity and liabilities, non-current liabilities 11%, and equity 19% as of December 31, 2015 (51%, 10%, and 39% respectively in 2014).

Decrease in the Group's current assets and increase in short-term loans and borrowings led to a working capital deficit of EUR 90.0 million. At the same time, the Group's cash ratio fell from 0.09 to 0.01 in 2015.

Increase in the current liabilities due to the growth of short-term loans led to a decrease in the current and quick ratios to 0.31 and 0.22 respectively.

Over 2015 the Group's average operating cycle had changed through increase in average payment period from 35 to 53 days in 2015.

Balance sheet items and liquidity analysis

Ratios	Definitions	2015	2014
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	29	30
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	67	71
Average payment period, days	Average trade payables to cost of sales times number of days in the period	53	39
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	43	63
Working capital, '000 EUR	Current assets less current liabilities	(89,947)	(29,737)
Current ratio	Current assets to current liabilities	0.31	0.75
Quick ratio	Current assets less inventories to current liabilities	0.22	0.61
Cash ratio	Cash and cash equivalents to current liabilities	0.01	0.09
ROE, %		-212%	-79%
ROA, %		-181%	-79%

Summary cash flow statement

	2015	2014
Cash flow from operating activities:		
Operating cash flows before working capital changes	10,527	17,254
Changes in assets and liabilities, net	(5,072)	(163)
Cash provided by (used in) operations:	(11,304)	(9,786)
Net cash from operating activity	**(5,849)**	**7,305**
Investing activities:		
Proceeds from sale of property, plant and equipment	48	376
Acquisition of property, plant and equipment	(3,261)	(6,275)
Acquisition of subsidiaries, net of cash acquired	10	-
Increase of other non-current assets	-	-
Net cash from investment activity	**(3,203)**	**(5,899)**
Financing activities:		
Acquisition of non-controlling interest	-	-
Commission paid	(42)	(41)
Dividends paid	-	(2,187)
Proceeds from borrowings	37,083	81,848
Repayment of borrowings	(36,495)	(81,826)
Net cash from financial activity	**546**	**(2,206)**
Net increase in cash	**(8,506)**	**(800)**
Effect of exchange rate changes on cash and cash equivalents	(1,018)	(1,825)
Cash at beginning of the period	10,431	13,056
Cash at the end of the period	907	10,431

Net cash at the end of the period decreased by 91% to EUR 0.9 million due to a negative 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 2015 and Sources of their Financing

In 2015, the Group's key investments were addressed mainly to maintenance of all its assets in Ukraine and Russia and partially to completion of modernization of its Russian subsidiaries Ostankino and Syrodel. To capitalize on the favorable market situation in Russia, the recent modernization allowed Syrodel to expand its cheese production by more than one-third on a y-o-y basis.

The following table represents the Group's key investments in 2011 through 2015 by type.

Key investments in 2011 through 2015, thousands of Euros

	2015	2014	2013	2012	2011
Property, plant and equipment	3,261	6,275	20,918	34,548	5,552
Acquisition of associates and subsidiaries	-10	0	488	14,146	5,305
Total investments	**3,251**	**6,275**	**21,406**	**48,694**	**10,857**

Last year's investments were financed mainly from operational cash flows and loan financing from Ukrainian, Russian and Polish banks. For more details on the Company's financial arrangements in 2015, refer to section *Material Factors and Events*.

Investment Plans for 2016 and Sources of their Financing

The Group's investment budget for 2015 will be limited to the maintenance costs because of the requirements of lenders and will comprise up to c. EUR 1 million.

For more information, refer to section *Fulfilment of Strategy in 2015 and Outlook for 201*.

In 2016, 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.

Shareholder structure of Milkiland N.V. as of December 31, 2015

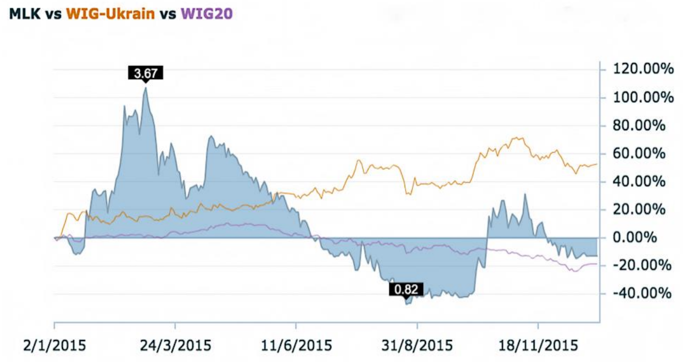
Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,973,588	73.52%	22,973,588	73.52%
R-Assets Cooperatief U.A.	1,562,800	5.00%	1,562,800	5.00%
Aviva Otwarty Fundusz Emerytalny	1,793,479	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 2015, Milkiland share price was volatile due to a number of adverse political and economic factors. International sentiment about Ukraine remained pessimistic, with major concern about the full-fledged armed confrontations in certain parts of the Donetsk and Lugansk regions and significant deterioration of the economic situation. The Group still has significant part of its business in Ukraine, hence overall scepticism had an impact on Milkiland's shares. Sector-specific restrictions imposed by the Russian government on the EU and Ukrainian food products were additional Group-specific reasons for concern.

By the year-end, Milkiland was trading with EV/EBITDA'15 of 11.9x.

Share price performance of Milkiland N.V.



Source: WSE, Bloomberg

Milkiland N.V. significant stock quotation data, 2015-2014

	2015	2014
Opening price (PLN)	1.61	10.98
Highest trading price (PLN)	3.67	10.98
Lowest trading price (PLN)	0.82	1.48
Closing price (PLN)	1.47	1.48
Closing price (EUR)	0.34	0.35
Stock performance (absolute)	-8.70%	-86.52%
Stock performance (relative to WIG)	-8.65%	-86.10%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	(232.98)	(229.87)
Price / earnings (P/E) as of December 31	-0.1	-0.2

	2015	2014
Market capitalization as of 31 December (PLN million)	45.9	46.3
Market capitalization as of 31 December (EUR million)	10.8	10.9
Net debt (EUR million)	106.6	91.5
EV (EUR million) as of December 31	118.6	104.8
EV / EBITDA as of December 31	12.0	6.1
Free float (PLN million)	9.9	9.9
Free float (EUR million)	2.3	2.3
Average daily turnover (PLN thousand)	130.9	39.3
Average daily turnover (EUR thousand)	31.3	9.4

Source: Bloomberg, management estimates

Management and Personnel

Composition of the Company's Board

As of December 31, 2015, 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 into another company.

Personnel

As of December 31, 2015, Milkiland employed 5,550 people. Out of them, 52 specialists were employed by LLC Milkiland N.V., the head company of the Group in Kyiv. Another 137 persons worked for the head office of Ukrainian subsidiary of the Group, 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 (4,070 people, including 518 employees in Milkiland Agro and its subsidiaries).

Milkiland EU, the head company of the Group in Warsaw employed 17 specialists. While the Polish production facility, Ostrowia cheese production plant had 128 employees.

The Group's Russian head-company Milkiland RU and Moscow-based Ostankino dairy combine employed 17 and 855 people, respectively. Other Russian subsidiaries had 258 employees in total.

The key companies within the Group, first of all, the holding company Milkiland N.V. and its subsidiaries such as Ostankino, Milkiland RU, and Milkiland EU, 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 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 4.7% of top managers, 8.9% other managerial stuff, and about 18.3% is service staff. The remaining 68.1% is mainly 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 2015, the internal and external training programs were developed for the key jobs. 2,007 employees or more than 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 Ostankino, EU quality and safety requirements at Milkiland-Ukraine. All new employees completed skill development on-boarding programs.

Corporate Social Responsibility

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, employee 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 2015, 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, purchasing of the gifts for children, charity payments to local NGO’s.

Milkiland’s Ukrainian subsidiaries also provided social assistance to support those employees who were drafted to the Ukrainian Army and their families.

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 a syndicate of international banks and started negotiations to sign a Loan Restructuring Agreement with the banks representing the syndicate, namely, UniCredit Bank Austria AG and AO Raiffeisenbank.

On August 17, 2015, Milkiland N.V. entered into the Professional Services Agreement with "Deloitte & Touche" Ltd., a member firm of Deloitte Touche Tohmatsu Limited. The Agreement envisaged the provision by "Deloitte & Touche" Ltd. of Company's Business Review and review of short-term liquidity forecast.

These services were performed by December 2015, when "Deloitte & Touche" Ltd. finalized the above mentioned documents, which were delivered for consideration of the main creditors of Milkiland.

On the basis of Deloitte's findings the Group are now continuing the negotiations with the creditors aimed at the restructuring of debt under Syndicated Loan Facility Agreement provided by the above mentioned banks. It is expected to finish the negotiations and sign the Loan Restructuring agreement in 2016.

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

As described above as at 31 December 2015 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 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. Until this moment there has been no impact on Milkiland's ability to use Ostrowia assets and the management of the Group is confident to settle the issue with Pekao bank before the actual enforcement, including by means of restructuring of the indebtedness to the bank.

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

Admission to China dairy market of the subsidiaries of Milkiland Ukraine

In November 2015 several production subsidiaries of Milkiland Ukraine were cleared for dairy export to China.

Non-fulfilment of significant agreements due to bank liquidation

On August 28, 2015 the National Bank of Ukraine revoked the license from, and the Deposit Guarantee Fund started the liquidation of the PJSC UKRAINIAN PROFESSIONAL BANK (the "UPB").

As at 28 August 2015, short-term deposits of EUR 4,400 thousand and UAH 92,836 thousand (equivalent of EUR 3,948 thousand) were placed with the UPB by the Ukrainian subsidiaries of the Company.

Although the Company and its subsidiaries shall take all due legal action to withdraw these deposits, these assets may appear unrecoverable, and the abovementioned deposits shall be reclassified as doubtful debts and a 100% provision was charged thereon in the financial accounts for the year 2015.

Appointment of the CEO of Milkiland Ukraine

On 19 August, 2015, Mrs. Maria Chumak was appointed at the position of the CEO of Milkiland Ukraine, a subsidiary of the Company which controls the Milkiland Group assets in Ukraine.

Mrs. Chumak has had an extensive experience as a top-manager of Ukrainian retail chains. From 2009 to 2012 she held the position of HR Director of “Krai-2” Ltd., member of Kraina Group Ltd.

In 2012-2015 she occupied the same position in the Ukrainian retailer “Eko-market”. On these positions she was engaged in the formation and implementation of HR-strategy, human resource management, development of planning and motivation systems.

In Milkiland Ukraine she was responsible for strategic business development in the Ukrainian and export markets.

Mrs. Chumak graduated from Kiev National Trade and Economic University in 2003 and holds a degree of magister in foreign trade relations.

Material factors and events after the reporting date

Admission to EU dairy market of the Group’s subsidiaries

In a view of Free Trade Zone agreement between Ukraine and EU came into the force 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.

Export restrictions

After the implementation of Free Trade Zone agreement between Ukraine and EU from January, 1, 2016, Russian Government starting with the same date exited from the Free Trade agreement with Ukraine and implemented a ban on import of Ukrainian food staff, including dairy products.

These limitations fully closed the Russian market for export of Ukrainian made cheese by the Group’s subsidiary Milkiland Ukraine in 2016.

Fulfilment of Strategy in 2015 and Outlook for 2016

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, Ostankinskaya for Russian market, as well as Ostrowia brand as a traditional trademark well-known for Polish customers.

Strategic challenges of 2014-2015

During last several years 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 and localization of cheese production within Russia in Rylsk.

The events of 2014, when the escalating conflict between Ukraine and Russia led to multiple restrictions and limitations in multilateral trade between Russia, Ukraine and EU, significantly cut the export business of the Group. All of these restrictions remained in place in 2015, when export supplies of Milkiland's Ukrainian and Polish subsidiaries to Russian market were diminished.

In the last year 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 13%, Russian Rouble devalued by 59%, 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 35% and decline of real income of population by more than 22% on y-o-y basis.

As the result, the Group's operational and financial results in 2015 were under the significant pressure. The Group's top-line in EUR terms by 34%, EBITDA – by 42% on y-o-y basis.

Being pushed to change its business pillar from export orientation towards growing competence in the local markets of the Group's operations, in 2015 Milkiland focused 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 2015

Last year, Moscow-based Ostankino Dairy Combine, the main subsidiary of the Group in Russia, delivered a moderate growth of sales (in RUB terms) fueled by increased sales of high value-added fresh dairy together with better pricing for dairy milk products in Russia. This facility held the position of main revenue contributor of Milkiland in 2015 by generating over 50% of the Group's sales in value terms and also delivered the highest profitability within the Group's subsidiaries.

An acceleration of Milkiland's efforts aimed at the localization of cheese production in Russia led to growth of the production volume of this product by Rylsk Syrodel division of LLC "Kursk milk" by more than one third on y-o-y basis to c. 5.0 thousand tons.

In Ukraine the Group made additional efforts aimed at the expansion in the domestic dairy market. In particular, Milkiland's share in the cheese segment grew by 0.3pp. to 8.3% in 2015. The Group held a position of TOP-5 player in this segment.

In its geographic diversification efforts, the Group in 2015 continued a development of its Polish division, which controls Ostrowia cheese plant. Milkiland here focused at the development of local distribution network by means of promotion of several types of traditional curd and hard cheese, including the most successful Milkiland's original cheese type King Arthur.

In 2015 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 2015 was stable and amounted c.14.3 thousand tons, mainly on the back of increase of milk yield per head by c. 9.4% on y-o-y basis.

In the last year the Group continued a policy aimed at searching of new markets and geographical diversification of sales. In line with this policy, Milkiland Intermarket subsidiary managed to maintain the volume of cheese export sales but decreased of sales of dry milk products on the back of declining global demand and process for them. Kazakhstan accounted for over 56% of its revenues in the reported year.

Strategic outlook for 2016

In 2016 Milkiland focuses on strengthening its market positions in the countries of its operations, as well as on searching for new export opportunities.

Milkiland's Russian division, which in 2015 maintained positive momentum both in terms of increased sales and profitability, aimed 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 devaluation of Russian currency in 2015-beginning of 2016.

The goals of the Ukrainian division are mainly triggered by the full implementation the Free-Trade Agreement between Ukraine and European Union since 1 January of 2016. First, it concentrates on gaining a new market share in the cheese segment, including by development in niche segments like mould and lactose-free cheese, on the back of tightened completion in the domestic market. Second, export sales of dairy goods, including butter and dry-milk products, to EU market is expected to be open in 2016. In addition, gaining of clearance for dairy export to China by several subsidiaries of Milkiland Ukraine by the end of 2015, initiated a goal of development of distribution channels to this country. The devaluation of the Ukrainian Hryvnia in 2015 – beginning of 2016 is the supporting factor for reaching of all of these goals.

Milkiland EU in 2016 plans to start an export of several types of high value-added products to Ukrainian market in line with the implementation of the above-mentioned FTZ Agreement, as well as to continue the efforts aimed on development of local distribution network in Poland and also finding 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 2016 will be limited just on the maintenance level because of the requirements of syndicate and will stand on the level of c. EUR 1 million only.

Material Risk Factors and Threats to the Group

The Group's business, financial condition and results of operations could be materially affected by a number of risks.

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

Cheese exports from Ukraine to Russia are subject to approval by the Russian Veterinary and Phytosanitary Authority. In January 2006, the Russian Federation imposed a ban on imports of all dairy products from Ukraine due to the alleged violation of veterinary and sanitary standards by the Ukrainian dairy producers. As a result, a number of Ukrainian cheese makers suffered damages.

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, 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 other.

For more details on the current situation with Russian export restrictions, refer to section *Material Factors and Events*.

Starting from January 1, 2016 Russia put a ban on dairy exports from Ukraine which is currently still in place and potentially could be removed in August 2016.

There can be no assurance that Russia will lift trade barriers for Ukrainian dairy exports or allow selected producers such as the Group or its subsidiaries to resume deliveries. If applied, such measures could have a material positive impact on the Group's business.

Input cost increase

The Group's business is subject to price fluctuations and shortages which sometimes are beyond its control. Although historically the Group has been able to pass on increases in raw material prices to its customers, there is no assurance that it will be able to do so in the 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 its 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. Therefore, the Group could face difficulties in sourcing supplies of raw milk on commercially acceptable terms. This could materially adversely affect the Group's business.

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. Due to a high budget deficit in Ukraine, many taxpayers entitled to VAT refund may not receive such refund on a timely basis. Although the Group until now managed to collect VAT receivables on exports in sufficient amounts, there is a risk that any failure by the Group to receive such refunds 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. 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.

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 Hryvnia, Rouble or other currencies may have an adverse effect on the financial results of the Group.

Risks of legislation and judicial system

The Russian Federation and Ukraine are still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental laws have only recently become effective. The recent nature of legislation 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 make judicial decisions in the Russian Federation and Ukraine difficult to predict and 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 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.

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.

These unfavourable developments might have an adverse effect on the Group's business and its financial statements, including by lowering the valuation of its assets in hard currency equivalent.

At the moment it's unpredictable how the crisis will evolve and because of this we cannot make a reliable estimation of the financial consequence of the crisis for our company.

Shifts in governmental policy and regulation in Russia and Ukraine may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the governments of Russia and Ukraine could lead to political instability, which could have a material adverse effect on Milkiland's business.

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").

The Code was last amended on December 10, 2008 and can be found at www.commissiecorporategovernance.nl.

Moreover, since its shares are listed on the Warsaw Stock Exchange, the Company is subject to the principles of Corporate Governance as stated in the Corporate Governance Code of the Warsaw Stock Exchange (the "WSE Code") which can be found at https://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 applied 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 Hillegomstraat 12-14, 1058LS, 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 2 subsidiaries in Russian Federation,
- MLK Finance Limited (Cyprus),
- Milkiland Intermarket (CY) LTD (Cyprus), with its 1 Ukrainian and 1 Kazakhstan subsidiary,

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 and five Non-Executive Directors. Three Non-Executive Directors, Willem Scato van Walt Meijer, George Christopher Logusch and Vitaliy Strukov are independent.

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 2015, the composition of the Board of Management was as follows:

Anatoliy Yurkevych: Executive Director, appointed as of August 28, 2007 and reappointed as of June 19, 2015; 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; 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 19, 2015; 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 August 04, 2014; 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 August 04, 2014; responsible for coordination of the Board and ensuring that proper corporate governance is in place;

Vitaliy Strukov: Non-Executive Director, appointed as of June 21, 2013 and reappointed as of June 19, 2015; responsible for consulting in the financial sphere, business process optimizations, informational support on investment opportunities and perspectives; and

George Christopher Logusch: Non-Executive Director, appointed as of June 21, 2013 and reappointed as of June 19, 2015; responsible for assisting in the Company's strategy development, risk assessment control and review of management performance.

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 (http://www.milkiland.nl/en/investors/general_information/corporate_documents/). The Chairman of the Board of Directors determines the agenda, presides over meetings of the Board of Directors and is responsible for the proper functioning of the Board of Directors. The Chairman of the Board of Directors shall always be a Non-Executive Director and is appointed by the General Meeting of Shareholders. All members of the Board of Directors have access to the advice and services of the corporate secretary, who is charged with ensuring that the Board of Directors' procedures are followed and that the Board of Directors acts in accordance with its statutory obligations under the Articles of Association. The corporate secretary is appointed 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 2015 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 are appointed for a maximum period of four years. Starting on the day of the General Meeting of Shareholders at which they are appointed and ending on the day of the annual General Meeting of Shareholders that is held in the fourth year of their appointment. Members of the Board of Directors may immediately be reappointed. Members of the Board of Directors can be suspended or dismissed by the General Meeting of Shareholders. If the General Meeting of Shareholders has suspended a Director, the General Meeting of Shareholders shall within three months of the date on which the suspension has taken effect, resolve either to dismiss such Director, or to terminate or continue the suspension, failing which the suspension shall lapse. A resolution to continue the suspension may be adopted only once and in such event the suspension may be continued for a maximum period of three months commencing on the day the General Meeting of Shareholders has adopted the resolution to continue the suspension. If within the period of continued suspension the General Meeting of Shareholders has not resolved either to dismiss the Director concerned or to terminate the suspension, the suspension shall lapse.
The Company has a profile of its Directors, which indicates the size and composition of the Board of Directors, the activities and expertise and background of the Directors. The profile of the Board of Directors can be viewed on the Company's website (http://www.milkiland.nl/en/company/sovet_direktorov/).

Board of Directors - Committees
The Board of Directors has an audit committee (the "Audit Committee"). The Board of Directors may establish any other committee as the Board of Directors shall decide. According to best practice provision 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 Mr. W.S. van Walt Meijer (the Chairman) and Mr. V. Rekov. The Terms of Reference of the Audit Committee can be viewed on the Company's website (http://www.milkiland.nl/en/investors/general_information/corporate_documents/).

Board of Directors - 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*).

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

The Company's Board Securities Rules and Insider Trading Rules can be viewed on the Company's website (http://www.milkiland.nl/en/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 2015, 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 2014, approval of reservation and dividend policy, discharge of the members of the Board of Directors for the financial year 2014, appointment of the external auditor as referred to in section 2:393 of the Dutch Civil Code for the financial year 2015 and the authorization of the Board of Directors for a period of 18 months following June 20, 2015 to i) resolve to issue shares 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 ii) 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 2015, 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 to reveal 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 to further improve 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

The Company complies with a majority of the WSE Corporate Governance Principles. It is noted that the one-tier board structure of the Company deviates from the WSE Code, which prescribes the existence and functioning of two separate governing bodies.

The Company does not comply with Recommendation I.9. of the Code of Best

Practice for WSE Listed Companies regarding the balanced proportion of men and women on the management Board and supervisory board. As the Company has a one-tier management structure, the management and supervisory duties are performed by the Board of Directors, which currently consists of six men and one woman. However, the Company understands and supports this recommendation and considers to involve more women in the Board of Directors.

Since the WSE Corporate Governance 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.

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.

Principle III.8 provides that the composition and functioning of a one-tier board shall be such that proper and independent supervision by the non-executive members of such board is assured. The Company acknowledges that the current composition of the board is not independent as referred to in the Code, however the Company believes that it has sufficient risk control mechanism in place to assure proper supervision.

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 III.8.4 provides that the majority of the members of the Board of Directors shall be Non-Executive Directors and that such Directors are independent within the meaning of best practice provision III.2.2 of the Code. Currently the Board of Directors of the Company is composed as such that it has a majority of Non-Executive Directors. However, only three out of five Non-Executive Directors are independent within the meaning of best practice provision III.2.2 of the Code. The Company believes however, that the current composition of the Board of Directors is such that it will provide for proper management and supervision.

Best practice provision IV.3.13: The Company currently has not yet developed an outline policy on bilateral contacts with the shareholders. The Company will develop such a policy and publish it on its website in 2016.

October 13, 2015 Supervisory Board of WSE approved Best Practice for GPW Listed Companies 2016, 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. Report on compliance by the Company with the recommendations and principles set out in Best Practice for GPW Listed Companies 2016 will be published on the Company site during 2016.

Report of Non-Executive Directors

In 2015, 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. Only Willem Scato van Walt Meijer, George Christopher Logusch and Vitaliy Strukov are independent within the meaning of best practice provision III.2.2 of the Code, whereas Vyacheslav Rekov and Oleg Rozhko cannot be considered independent in this respect.

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.

There were no irregularities in the 2015 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 2015 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	165,933	0	165,933
Anatoliy Yurkevych	Executive Director, Chief Executive Officer	28.08.2007	295,461	0	295,461
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	32,300	0	32,300
George Logush	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 2015 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 2015 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, 2015 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at December 31, 2015 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended December 31, 2015, 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, 2015, 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.

Board of Directors of Milkiland N.V.

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 2015, 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 2015.

Amsterdam, 28 April 2016

A. Yurkevych   O. Yurkevich   O. Rozhko

V. Rekov   W.S. van Walt Meijer   G.C. Logush   V. Strukov

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2015	31 December 2014
ASSETS			
Current assets			
Cash and cash equivalents	6	907	10,431
Trade and other receivables	7	19,506	50,615
Inventories	8	12,193	17,779
Current biological assets	13	1,621	1,901
Current income tax assets		947	367
Other taxes receivable	9	5,417	10,541
		40,591	**91,634**
Non-current assets			
Goodwill	10	1,746	2,147
Property, plant and equipment	11	117,787	135,401
Investment property	12	20,065	0
Non-current biological assets	13	1,507	2,017
Other intangible assets	11	1,695	2,286
Deferred income tax assets	29	3,159	6,366
		145,959	**148,217**
TOTAL ASSETS		**186,550**	**239,851**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	24,659	22,535
Current income tax liabilities		351	384
Other taxes payable	15	2,118	2,063
Short-term loans and borrowings	16	103,410	96,389
		130,538	**121,371**
Non-current liabilities			
Loans and borrowings	16	4,061	5,531
Deferred income tax liabilities	29	14,706	18,005
Other non-current liabilities		1,304	351
		20,071	**23,887**
Total liabilities		**150,609**	**145,258**
Equity attributable to owners of the Company			
Share capital	17	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve	18	79,866	68,502
Currency translation reserve		(48,651)	(45,845)
Retained earnings		(48,377)	17,676
		34,650	**92,145**
Non-controlling interests		**1,291**	2,448
Total equity		**35,941**	**94,593**
TOTAL LIABILITIES AND EQUITY		**186,550**	**239,851**

(All amounts in euro thousands unless otherwise stated)

	Notes	2015	2014
Revenue	21	191,447	288,725
Change in fair value of biological assets	22	105	1,405
Cost of sales	23	(163,793)	(233,837)
Gross profit		**27,759**	**56,293**
Selling and distribution expenses	24	(15,799)	(23,413)
Administrative expenses	25	(14,465)	(23,675)
Other expenses, net	26	(24,374)	(9,862)
Operating loss		**(26,879)**	**(657)**
Finance income	27	418	2,912
Finance expenses	28	(46,613)	(76,903)
Loss before income tax		**(73,074)**	**(74,648)**
Income tax	29	(222)	2,233
Net loss for the year		**(73,296)**	**(72,415)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Gains on revaluation of properties		22,177	28,139
Tax effect on revaluation of properties		(4,059)	(4,741)
		18,118	23,398
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(3,474)	(29,639)
Total other comprehensive income/(loss)		**14,644**	**(6,241)**
Total comprehensive loss		**(58,652)**	**(78,656)**
Loss attributable to:			
Owners of the Company		(72,807)	(71,835)
Non-controlling interests		(489)	(580)
		(73,296)	**(72,415)**
Total comprehensive loss attributable to:			
Owners of the Company		(57,495)	(76,005)
Non-controlling interests		(1,157)	(2,651)
		(58,652)	**(78,656)**
Earnings per share	33	**(232.98)**	**(229.87)**

(All amounts in euro thousands unless otherwise stated)

	Notes	2015	2014
Cash flows from operating activities:			
Loss before income tax		**(73,074)**	**(74,648)**
Adjustments for:			
Depreciation and amortization	11	11,810	10,062
Loss from disposal and write off of inventories	26	502	1,253
Change in provision and write off of trade and other accounts receivable	26	9,014	1,754
Loss from settlement of accounts receivable, net	26	14,267	-
Change in provision and write off of unrealized VAT	26	42	1,908
Loss from disposal of non-current assets	26	1,399	149
Loss on revaluation of property, plant and equipment	26	509	6,114
Change in fair value of biological assets	22	(105)	(1,405)
Operational foreign exchange results, net	26	(30)	(1,914)
Finance income	27	(418)	(2,912)
Finance expenses	28	46,613	76,903
Write off of accounts payable	26	(2)	(10)
Operating cash flow before movements in working capital		**10,527**	**17,254**
Increase in trade and other accounts receivable		(7,132)	(6,836)
Decrease/(increase) in inventories		2,175	(248)
(Increase)/decrease in biological assets		(152)	4,189
(Decrease)/increase in trade and other payables		(2,958)	4,652
Decrease/(increase) in other taxes receivable		2,940	(1,712)
Increase/(decrease) in other taxes payable		55	(208)
Net cash provided by operations		**5,455**	**17,091**
Income taxes paid		(2,357)	(2,860)
Interest received		542	2,637
Interest paid		(9,489)	(9,563)
Net cash provided by operating activities		**(5,849)**	**7,305**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(3,261)	(6,275)
Proceeds from sale of property, plant and equipment	11	48	376
Acquisition of subsidiaries, net of cash acquired		10	-
Net cash used in investing activities		**(3,203)**	**(5,899)**
Cash flows from financing activities:			
Proceeds from borrowings	16	37,083	81,848
Repayment of borrowings	16	(36,495)	(81,826)
Dividends paid	20	-	(2,187)
Commissions paid		(42)	(41)
Net cash provided by/(used in) financing activities		**546**	**(2,206)**
Net decrease in cash and equivalents		**(8,506)**	**(800)**
Cash and equivalents, beginning of year	6	**10,431**	**13,056**
Effect of foreign exchange rates on cash and cash equivalents		(1,018)	(1,825)
Cash and equivalents, end of year	6	**907**	**10,431**

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 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**
Balance at 1 January 2014		**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**	**5,099**	**175,436**
Loss for the year		-	-	-	-	(71,835)	**(71,835)**	(580)	**(72,415)**
Revaluation of PPE	18	-	-	-	23,398	-	**23,398**	-	**23,398**
Other comprehensive loss, net of tax effect		-	-	(27,568)	-	-	**(27,568)**	(2,071)	**(29,639)**
Total comprehensive loss for the year		**-**	**-**	**(27,568)**	**23,398**	**(71,835)**	**(76,005)**	**(2,651)**	**(78,656)**
Declaration of dividends	20	-	-	-	-	(2,187)	**(2,187)**	-	**(2,187)**
Realized revaluation reserve, net of income tax	18	-	-	-	(3,648)	3,648	**-**	-	**-**
Balance at 31 December 2014		**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**	**2,448**	**94,593**

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 2015 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The financial statements were approved by the Board of Directors on 28 April 2016 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 Hillegomstraat 12-14,1058LS, Amsterdam, the Netherlands and the principal place of business is 9, Boryspilska Str., 02090, Kyiv, Ukraine.

As at 31 December 2015 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 2015, the Group employed 5,550 people (2014: 6,753 people).

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2015 to 31 December 2015 the Company had the following direct and indirect subsidiaries:

Name	Country of incorporation	Principal activity	Effective share of ownership 31 December 2015	Effective share of ownership 31 December 2014
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%	100.0%
LLC Trubizh-Moloko	Ukraine	Trade	100.0%	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%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	Agricultural	97.5%	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%	-
LLC Agrolendinvest	Ukraine	Investment assets	100.0%	-
LLC Phobostrade	Ukraine	Investment assets	100.0%	-
LLC Kilchensky Berig	Ukraine	Investment assets	100.0%	-
LLC Novomoskovsk Dairy Combine	Russia	Production entity	100.0%	-

During the year ended 31 December 2015, the Group finalized registration of new subsidiary LLC Novomoskovsk Dairy Combine in Russia, and part of the Russian assets have been transferred to this plant.

During the year ended 31 December 2015 LLC Avtek Rent Service was sold on third parties.

During the year ended 31 December 2015, the Group received assets (investment property) to offset account receivable. This transaction was performed as acquisition of legal entities as LLC Lendinvest 3000, LLC Agrolendinvest, LLC Phobostrade, LLC Kilchensky Berig. For more information, see note 5, note 26.

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 2015, 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 2015 and up to 31 December 2015, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 52% 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 2015 the Group was in breach of certain financial covenants under a few bank loans mostly due to sharp devaluation of the local currency (Note 31). 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. Until this moment there has been no impact on Milkiland's ability to use Ostrowia assets and the management of the Group is confident to settle the issue with Pekao bank before the actual enforcement, including by means of restructuring of the indebtedness to the bank.

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.*

(a) New standards, amendments to standards and interpretations that are mandatory for the first time for the financial year ended 31 December 2015 and were adopted by the Group.

Amendments to IAS 19 - *Defined Benefit Plans: Employee Contributions*. Amends to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered. The amendment did not affect on the Group's financial position and results of operations.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2015 are not material to the Group.

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2015 and which the Group has not early adopted:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

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 labour 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.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are reflected at amortized cost using the effective interest method after their initial evaluation. Amortized cost is calculated taking into account all discounts or bonuses that arose at acquisition and includes commissions being an integral part of the efficient interest rate as well as transaction costs. Gains and expenses are recognized in the statement of comprehensive income when assets are derecognized or impaired, as well as through the amortization process.

After initial recognition, extended loans are measured at fair value of the funds granted that is determined using the effective market rate for such instruments, if they materially differ from the interest rate on such loan granted. In future loans are measured at amortized cost using the effective interest rate method. Difference between the fair value of the funds granted and loan reimbursement amount is reported as interest receivable during the whole period of the loan. Amortized cost is calculated taking into account all transaction expenses and discounts or bonuses that arose at repayment.

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

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

Investments held-to-maturity

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

Fair value

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

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

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

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

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

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

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

<u>Fair value of biological assets</u>

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.

<u>Fair value of agricultural produce</u>

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.

<u>Non-derivative financial liabilities</u>

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 2015 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.

<u>Assets reported at amortized cost</u>

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.

(All amounts in euro thousands unless otherwise stated)

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 2015	1.1100	24.1942	67.7767	4.1839
As at 31 December 2015	1.0887	26.1295	79.6972	4.2615
Average for year ended 31 December 2014	1.3286	15.7276	50.8150	4.1852
As at 31 December 2014	1.2141	19.1446	68.3427	4.2623

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 34% (2014: 36%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 55% (2014: 47%) 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.

(All amounts in euro thousands unless otherwise stated)

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:

	2015				2014			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	114,421	63,266	13,760	**191,447**	151,411	136,501	26,716	**314,628**
Inter-segment revenue	-	-	-	**-**	(430)	(18,358)	(7,115)	**(25,903)**
Revenue from external customers	114,421	63,266	13,760	**191,447**	150,981	118,143	19,601	**288,725**
EBITDA	**9,124**	**3,770**	**(1,423)**	**11,471**	**9,198**	**11,981**	**(1,674)**	**19,505**
EBITDA margin	8%	6%	-10%	**6%**	6%	10%	-9%	**7%**
Depreciation and amortisation	2,735	7,053	2,022	**11,810**	2,082	5,905	2,075	**10,062**

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:

	2015				2014			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	65,703	105,094	20,650	**191,447**	129,138	137,026	48,464	**314,628**
Inter-segment revenue	-	-	-	**-**	(24,028)	-	(1,875)	**(25,903)**
Revenue from external customers	65,703	105,094	20,650	**191,447**	105,110	137,026	46,589	**288,725**
EBITDA	**3,368**	**8,578**	**(475)**	**11,471**	**4,811**	**9,857**	**4,837**	**19,505**
EBITDA margin	5%	8%	-2%	**6%**	5%	7%	10%	**7%**
Depreciation and amortisation	5,071	4,120	2,619	**11,810**	3,253	2,794	4,015	**10,062**

(All amounts in euro thousands unless otherwise stated)

A reconciliation of EBITDA to profit before tax:

	2015	2014
EBITDA	11,471	19,505
Other segments EBITDA	(1,619)	(2,399)
Total segments	**9,852**	**17,106**
Depreciation and amortization	(11,810)	(10,062)
Non-recurring expenses	(23,013)	(1,438)
Loss from disposal and impairment of non-current assets	(1,908)	(6,263)
Finance expenses	(46,613)	(76,903)
Finance income	418	2,912
Loss before tax	**(73,074)**	**(74,648)**

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:	**2015**	**2014**
Sales revenue	408	5,364
Finance income/(expenses), net	-	1,093

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

Entities under common control:	**2015**	**2014**
Trade accounts receivable	261	5,708
Other financial assets	2,251	17,733
Other accounts receivable	64	261

In 2015 the Group agreed to settle accounts receivable from related parties in amount of EUR 22,852 thousand by receiving assets (it was performed as acquisition of LLC Kilchensky Berig (note 1)). This assets were classified as investment property (note 12), as the Group plans to held this property for long-term capital appreciation.

As fair value of investment property was EUR 6,968 thousand, the Group impaired accounts receivable to fair value of these assets and recognized a loss of EUR 15,884 thousand. A loss was shown in other expenses as loss from settlement of accounts receivable, net (note 26).

Management expects that after stabilization of political and economic situation in Ukraine the fair value of received assets will increase and override recognized loss.

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 676 thousand (2014: EUR 730 thousand).

(All amounts in euro thousands unless otherwise stated)

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 2015	31 December 2014
Short term deposits	39	9,000
Cash in bank and cash on hand	868	1,431
Total cash and cash equivalents	**907**	**10,431**

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 2015	31 December 2014
Trade accounts receivable	14,724	24,163
Other financial assets	10,463	17,910
Allowance for doubtful debts	(10,324)	(2,439)
Total financial assets within trade and other receivables	**14,863**	**39,634**
Advances issued	2,197	9,097
Other receivables	3,124	2,507
Allowance for doubtful debts	(678)	(623)
Total trade and other accounts receivable	**19,506**	**50,615**

As at 31 December 2015 trade receivables of EUR 4,666 (2014: EUR 9,426 thousand) were past due and individually determined to be impaired in the amount of EUR 10,324 thousand (2014: EUR 2,439 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 amounts due from related parties. As at 31 December 2015 the amount of EUR 2,251 thousand (2014: EUR 17,733 thousand).

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2015		31 December 2014	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Customers with no history of default	10,058	2,253	14,737	17,910
Total current and not impaired	**10,058**	**2,253**	**14,737**	**17,910**
Individually determined to be impaired				
- less than 30 days overdue	1,505	-	3,267	-
- 30 to 60 days overdue	242	-	840	-
- 60 to 90 days overdue	92	-	1,534	-
- 90 to 360 days overdue	123	-	891	-
- over 360 days overdue	2,704	-	2,894	-
Customers with history of default	-	8,210	-	-
Total individually determined to be impaired	**4,666**	**8,210**	**9,426**	-
Less impairment provision	(2,114)	(8,210)	(2,439)	-
Total	**12,610**	**2,253**	**21,724**	**17,910**

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 2015 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:

	2015	2014
Balance 1 January	**2,439**	**1,086**
Provided by during the year	(17)	1,928
Unused amount reversed	(62)	-
Receivable written off during the year as uncollectible	11	(246)
Exchange difference	(257)	(329)
Balance 31 December	**2,114**	**2,439**

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.

(All amounts in euro thousands unless otherwise stated)

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 2015	31 December 2014
Raw and other materials	5,870	8,296
Finished goods and work in progress	6,191	8,880
Agriculture produce	132	603
Total inventories	**12,193**	**17,779**

At 31 December 2015 bank borrowings are secured on inventories the value of EUR 837 thousand (2014: EUR 5,987 thousand) (note16).

As at 31 December 2015 inventories are stated net of provision for obsolescence at the amount of EUR 487 thousand (2014: EUR 543 thousand).

9 Other taxes receivable

	31 December 2015	31 December 2014
VAT recoverable	5,291	10,429
Payroll related taxes	81	102
Other prepaid taxes	45	10
Total other taxes receivable	**5,417**	**10,541**

VAT receivable as at 31 December 2015 is shown net of provision at the amount of EUR 582 thousand (31 December 2014: EUR 667 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 25% (2014: 25%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

10 Goodwill

	2015	2014
Balance at 1 January	2,147	3,426
Foreign currency translation	(401)	(1,279)
Balance at 31 December	**1,746**	**2,147**

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 and subsequently reorganized to LLC Uspih-Mena in 2013.

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2015	31 December 2014
Milk production operations	1,193	1,391
Agricultural operations	553	756
	1 746	**2,147**

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 key assumptions used for the value in use calculations for Ostankino Dairy Combine are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan.
- A cash-generating unit specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.
- Change in key assumptions used for calculations were changed since prior year due to the management estimation of further development of diary market in Russian federation.

	2015	2014
Pre-tax discount rate	15,8%-20,8%	20%-24%
Revenue growth rate for the five-year period	5%-7%	4%-7%
EBITDA growth rate for the five-year period	5%-7%	4%-7%
Revenue growth rate after the five-year period	0%	0%

The key assumptions used for the value in use calculations for agricultural are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan.
- A cash-generating unit specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

	2015	2014
Pre-tax discount rate	22%-24%	20%
Revenue growth rate for the five-year period	4%-7%	7%
EBITDA growth rate for the five-year period	4%-7%	7%
Revenue growth rate after the five-year period	0%	0%

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 2015 and in 2014. 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.

(All amounts in euro thousands unless otherwise stated)

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 2014						
Revalued cost	132,114	55,770	13,826	19,068	4,540	225,318
Accumulated depreciation and amortization	(10,071)	(17,948)	(4,785)	-	(1,205)	(34,009)
Net book value	**122,043**	**37,822**	**9,041**	**19,068**	**3,335**	**191,309**
Year ended 31 December 2014						
Opening net book value	122,043	37,822	9,041	19,068	3,335	191,309
Additions	2,984	1,746	931	987	46	6,694
Depreciation and amortization	(3,549)	(4,988)	(1,252)	-	(273)	(10,062)
Transfers	976	299	79	(1,356)	2	-
Revaluation	14,260	5,027	1,764	-	-	21,051
Disposals	(313)	(252)	(101)	(17)	(26)	(709)
Exchange rate difference	(46,218)	(11,247)	(3,851)	(8,481)	(798)	(70,595)
Closing net book value	**90,183**	**28,407**	**6,611**	**10,201**	**2,286**	**137,688**
At 31 December 2014						
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	84,577	27,877	5,655	5,094	3,052	126,255
Accumulated depreciation and amortization	(1,145)	(4,111)	(160)	-	(1,357)	(6,773)
Net book value	**83,432**	**23,766**	**5,495**	**5,094**	**1,695**	**119,482**

At 31 December 2015 bank borrowings are secured on properties for the value of EUR 88,685 thousand (2014: EUR 73,312 thousand) (note16).

At 31 December 2015 bank borrowings are secured on Intangible assets the value of EUR 608 thousand (2014: EUR 830 thousand).

At 31 December 2015 the gross carrying value of fully depreciated property, plant and equipment is EUR 987 thousand (2014: EUR 3,668 thousand).

(All amounts in euro thousands unless otherwise stated)

At 31 December 2015 EUR 482 thousand (2014: EUR 672 thousand) of cost less accumulated amortization of land lease rights of purchased agricultural companies is included into intangible assets group. Land lease rights with remaining useful life of 4-7 years were recognized as a result of business combination.

At 31 December 2015 EUR 1,498 thousand (2014: EUR 1,485 thousand) of cost less accumulated amortization of Trade Marks owned by Ostrowia sp.z.o.o. were included into intangible assets group. Trade Marks with useful life of 10 years were recognized as a result of business combination.

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 2015 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 surplus net of applicable deferred income taxes EUR 18,118 thousand was credited to other comprehensive income and is shown in Revaluation reserve in shareholders equity (note 18). The revaluation loss of EUR 509 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 2015 would be:

	Land and buildings	**Plant and equipment**	**Other assets**	**Constructions in progress**	**Intangible assets**	**Total**
31 December 2015	66,932	18,861	3,567	5,455	1,693	**96,508**

12 Investment property

	Land	**Constructions in progress**	**Total**
Year ended 31 December 2015			
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 2015, there were no restrictions on the realization of investment property or the remittance of income and proceeds of disposal (2014: none).

The investment property was passed through appraisal on 31 December 2015 (2014: none) 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.

(All amounts in euro thousands unless otherwise stated)

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 2015		**31 December 2014**	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	4,356	1,594	4,633	1,797
Other	-	6	-	9
	4,356	**1,600**	**4,633**	**1,806**

Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Other	-	21	-	95
	-	**21**	**-**	**95**
Total current biological assets	**-**	**1,621**	**-**	**1,901**

Non-current biological assets	Units	Amount	Units	Amount
Cattle	2,642	1,507	2,718	2,011
Other livestock	-	-	-	6
	2,642	**1,507**	**2,718**	**2,017**

(All amounts in euro thousands unless otherwise stated)

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2015 and 2014:

	2015	**2014**
1 % increase in discount rate	-	24
1 % decrease in discount rate	-	14
10 % increase in price for milk	-	549
10 % decrease in price for milk	(149)	(881)
10 % increase in price for meat	164	169
10 % decrease in price for meat	(153)	(128)

The following represents the changes during the year ended 31 December 2015 and 31 December 2014 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 2014	**5,074**	**2,464**	**4,102**
Purchases	-	-	38
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	470	31	605
Investments into future crops	-	116	-
Transfers	1,063	-	(1,063)
Decrease due to harvest	-	(1,758)	-
Disposals	(2,891)	-	-
Currency translation difference	(1,910)	(758)	(1,665)
As at 31 December 2014	**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**

(All amounts in euro thousands unless otherwise stated)

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 2015	31 December 2014
Trade payables	15,000	16,456
Accounts payable for fixed assets	37	120
Interest payable	4,653	1,010
Other financial payables	200	158
Total financial liabilities within trade and other payable	**19,890**	**17,744**
Wages and salaries payable	1,406	1,980
Advances received	944	668
Other accounts payable	1,399	588
Accruals for employees' unused vacations	1,020	1,555
Total trade and other payables	**24,659**	**22,535**

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 2015	31 December 2014
VAT payable	952	1,011
Payroll related taxes	1,069	922
Other taxes payable	97	130
Total other taxes payable	**2,118**	**2,063**

(All amounts in euro thousands unless otherwise stated)

16 Interest bearing loans and borrowings

	31 December 2015	31 December 2014
Current		
Interest bearing loans due to banks	101,862	95,206
Loans from non-financial institutions	-	14
Bank overdrafts	512	469
Finance leases	1,036	700
Total current borrowings	**103,410**	**96,389**
Non-current		
Interest bearing loans due to banks	2,894	4,028
Finance leases	1,167	1,503
Total non-current borrowings	**4,061**	**5,531**
Total borrowings	**107,471**	**101,920**

At 31 December 2015 bank loans in the amount of EUR 15,057 thousand (2014: EUR 20,061 thousand) are classified as short-term. They relate to the renewable long-term credit lines with maturity dates in 2016. 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 2015 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 2015 stood at EUR 53,807 thousand, including an overdue amount of EUR 53,807 thousand is classified as current interest bearing loans due to banks (note 16).

As at 31 December 2015 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:

	2015	2014
6 months or less	67,770	94,798
6-12 months	35,640	7,081
1-3 years	4,031	41
3-5 years	30	-
	107,471	**101,920**

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

	31 December 2015					31 December 2014				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less										
Outstanding balance, thousand EUR	73,706	10,109	15,967	3,628	**103,410**	72,900	2,210	17,813	3,466	**96,389**
Average interest rate, %	8,93	24,59	15.28	13.74	**11.61**	11.11	22.98	9.91	4.50	**10.92**
1-5 years										
Outstanding balance, thousand EUR	2,894	-	49	1,118	**4,061**	4,028	4	30	1,469	**5,531**
Average interest rate, %	8.33	-	5.21	30.33	**14.35**	8.25	24.00	2.56	5.61	**7.53**

At 31 December 2015 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 53,807 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).

17 Share capital

Share capital as at 31 December is as follows:

	31 December 2015		31 December 2014	
	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 2015 EUR 6,754 thousand was transferred to retained earnings (2014: EUR 3,648 thousand).

Change of Revaluation reserve as a result of the revaluation of property, plant and equipment in 2015 was EUR 15,428 thousand for Ukrainian companies and EUR 2,690 thousand for Russian companies.

(All amounts in euro thousands unless otherwise stated)

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 2015 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:

	2015	2014
Cheese & Butter	65,703	105,110
Whole-milk products	105,094	137,026
Ingredients	20,650	46,589
Total revenue	**191,447**	**288,725**

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

	2015	2014
Russia	114,296	165,645
Ukraine	56,759	85,895
Poland	11,223	19,601
Other	9,169	17,584
Total revenue	**191,447**	**288,725**

22 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR 105 thousand (2014: EUR 1,405 thousand) represents the revaluation of cattle at fair value less costs to sell.

23 Cost of sales

	2015	2014
Raw and other materials	120,468	174,317
Wages and salaries	8,089	11,742
Depreciation	10,739	8,167
Transportation costs	4,784	6,996
Gas	4,556	7,727
Electricity	4,224	5,542
Social insurance contributions	2,376	3,854
Repairs of property, plant and equipment	2,158	3,066
Water	306	811
Other	4,328	5,815
Changes in finished goods and work in progress	1,765	5,800
Total cost of sales	**163,793**	**233,837**

(All amounts in euro thousands unless otherwise stated)

24 Selling and distribution expenses

	2015	2014
Transportation costs	7,402	9,726
Security and other services	835	2,021
Marketing and advertising	1,265	2,894
Wages and salaries	3,884	5,205
Social insurance contributions	1,118	1,521
License fees	52	299
Rental costs	232	390
Depreciation and amortization	224	328
Other	787	1,029
Total selling expenses	**15,799**	**23,413**

25 Administrative expenses

	2015	2014
Wages and salaries	6,582	9,706
Social insurance contributions	1,354	2,314
Taxes and other charges	1,164	1,389
Representative charges	538	794
Other utilities	124	187
Bank charges	394	1,425
Repairs and maintenance	361	441
Depreciation and amortization	808	1,389
Consulting fees	1,113	3,212
Security and other services	465	572
Transportation costs	225	484
Property insurance	42	68
Rental costs	323	373
Communication	191	283
Office supplies	44	89
Other	737	949
Total administrative expenses	**14,465**	**23,675**

(All amounts in euro thousands unless otherwise stated)

26 Other expenses, net

	2015	2014
Government grants recognized as income	1,079	63
Rental income	235	384
Gain from write off of accounts payable	2	10
Change in provision and write off of trade and other accounts receivable	(9,014)	(1,754)
Loss from settlement of accounts receivable, net	(14,267)	-
Depreciation	(39)	(179)
Other income/(expenses)	433	(444)
Loss from revaluation of non-current assets	(509)	(6,114)
Loss from disposal of non-current assets	(1,399)	(149)
Loss from disposal and write off of inventories	(502)	(1,253)
Penalties	(381)	(432)
Operational foreign exchange results, net	30	1,914
Change in provision and write off of VAT receivable	(42)	(1,908)
Total other (expenses)/income, net	**(24,374)**	**(9,862)**

Change in provision and write off of trade and other accounts receivable includes allowance for doubtful debts in the amount of EUR 8,210 thousand which was accrued for 100% of Deposits in PJSC UKRAINIAN PROFESSIONAL BANK (note 7).

In 2015 the Group agreed to settle accounts receivable from counterparties in amount of EUR 11,480 thousand by receiving assets (it was performed as acquisition of LLC Lendinvest 3000, LLC Agrolendinvest, LLC Phobostrade (note 1)). These assets were classified as investment property (note 12), as the Group plans to held this property for long-term capital appreciation.

As fair value of investment property was EUR 13,097 thousand, the Group recognized a gain of EUR 1,617 thousand. A gain was shown in other expenses as loss from settlement of accounts receivable, net.

27 Finance income

	2015	2014
Other finance income	-	1,096
Finance foreign exchange income, net	34	809
Bank deposits	384	1,007
Total finance income	**418**	**2,912**

28 Finance expenses

	2015	2014
Bank borrowings	13,018	10,107
Other borrowings	216	132
Finance leases	156	171
Discounting of loans	-	1,266
Finance foreign exchange expenses, net	32,870	65,227
Other finance expense	353	-
Total finance expenses	**46,613**	**76,903**

(All amounts in euro thousands unless otherwise stated)

29 Income tax

	2015	2014
Current income tax expense	(1,766)	2,800
Deferred income tax benefit	1,544	(5,033)
Income tax expense	**(222)**	**(2,233)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2015 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2014: 18%), Russian profit tax was levied at the rate of 20% (2014: 20%), Poland profit tax was levied at the rate of 19% (2014: 19%). In 2015 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.

	2015	2014
Loss before taxation, including	**(73,074)**	**(74,648)**
Loss of companies levied a single agricultural tax (Ukrainian operations)	(11,612)	(13,320)
Loss of Ukrainian companies	(41,718)	(54,449)
Profit of Russian companies	1,477	4,059
Loss of Poland companies	(4,544)	(4,800)
Loss before income tax of other companies	(11,957)	(4,470)
Declaration of dividends within the Group	(4,720)	(1,668)
Income tax charge at statutory rate of 18% (2013: 19%) (Ukrainian operations)	7,507	(9,802)
Income tax charge at statutory rate of 20% (Russian operations)	(295)	812
Income tax charge at statutory rate of 25.5% (Dutch operations)	(939)	13
Income tax charge at statutory rate of 19% (Poland operations)	863	(912)
Income tax charge at statutory rate of 10% (Cyprus operations)	35	(86)
Change in deferred income taxes resulting from reduction in tax rate	-	261
Provision in respect of irrecoverable deferred income tax asset	(1,404)	3,547
Reassessment of deferred income tax liability	34	32
Tax effect of items which are permanently not deductible or assessable for taxation purposes	(6,023)	3,902
Income tax expense	**(222)**	**(2,233)**

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:

	2015	2014
Deferred income tax liability	(14,706)	(18,005)
Deferred income tax asset	3,159	6,366
	(11,547)	(11,639)

(All amounts in euro thousands unless otherwise stated)

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 2015	Deferred income tax income or expense recognized in profit or loss	Deferred income tax 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)
Tax losses carried forward	8,859	1,959	(2,140)	-	8,678
Less accrued provision	(7,580)	(1,406)	2,131	-	(6,855)
Deferred income	21	(10)	(2)	-	9
Other	93	18	(15)	-	96
Netting with deferred income tax liabilities	(23,205)	15,625	4,706	-	(2,874)
Deferred income tax assets	**6,366**	**(2,016)**	**(1,191)**	**-**	**3,159**
Recognized deferred income tax liabilities attributable to the following elements:					
Trade and other receivables	(743)	(1,125)	43	-	(1,825)
Advances paid and prepaid expenses	(24,083)	19,058	5,027	-	2
Property, plant and equipment	(16,385)	1,393	3,316	(4,081)	(15,757)
Netting with deferred income tax assets	23,205	(15,625)	(4,706)	-	2,874
Deferred income tax liabilities	**(18,006)**	**3,701**	**3,680**	**(4,081)**	**(14,706)**
Total deferred income tax assets and liabilities	**(11,640)**	**1,685**	**2,489**	**(4,081)**	**(11,547)**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2014:

	1 January 2014	Deferred income tax income or expense recognised in profit or loss	Deferred income tax income or expense recognised in other comprehensive income	Currency Translation	31 December 2014
Recognised deferred income tax assets attributable to the following elements:					
Trade and other receivables	976	(68)	-	(387)	521
Inventories	129	81	-	(68)	142
Property, plant and equipment	74	(17)	-	(28)	29
Trade and other payables	535	3,339	-	(540)	3,334
Advances received	47,760	(4,050)	-	(19,559)	24,151
Financial lease liability	605	(599)	-	(5)	1
Tax losses carried forward	4,371	7,167	-	(2,679)	8,859
Less accrued provision	(8,076)	(3,547)	-	4,042	(7,581)
Defered income	47	(13)	-	(13)	21
Other	57	75	-	(38)	94
Netting with deferred income tax liabilities	(38,072)	(836)	-	15,703	(23,205)
Deffered income tax assets	**8,406**	**1,532**	**-**	**(3,572)**	**6,366**
Recognised deferred income tax liabilities attributable to the following elements:					
Trade and other receivables	(202)	(610)	-	69	(743)
Advances paid and prepaid expenses	(48,420)	4,594	-	19,743	(24,083)
Property, plant and equipment	(16,627)	(1,315)	(4,741)	6,299	(16,384)
Netting with deferred income tax assets	38,072	836	-	(15,703)	23,205
Deferred income tax liabilities	**(27,177)**	**3,505**	**(4,741)**	**10,408**	**(18,005)**
Total deferred income tax assets and liabilities	**(18,771)**	**5,037**	**(4,741)**	**6,836**	**(11,639)**

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 2015 deferred income tax assets are shown net of provision for irrecoverable deferred income tax assets at the amount of EUR 6,857 thousand (2014: EUR 7,581 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 2015. 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 2015.

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

As at 31 December 2015 according to the Court order (in connection with the appeal of the Economic Court of Kiev with letter for legal assistance to the Central Authority of the foreign state (the Netherlands)), the proceedings was postponed to 22 June 2016.

As at the date of financial statement issue, the shareholders of PJSC Bank Forum challenged in court the legality of the introduction of the temporary administration and the opening of liquidation proceedings.

According to the ruling of Supreme Court of Ukraine issued in January 2015, all of the previous court rulings and orders regarding the liquidation of the bank were overturned and the case was adjourned to the new hearing which is not yet appointed. In this regard, the credentials of representatives Deposit Guarantee Fund, acting on behalf of the bank in the courts, are controversial.

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 2015 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.

(All amounts in euro thousands unless otherwise stated)

Insurance policies

The Group insures all significant property. As at 31 December 2015, most of the Group's property is insured.

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

In 2015 the Company insured its property, plant and equipment for a total amount of EUR 78,925 thousand (2014: EUR 72,937 thousand).

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 2015 and 2014 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 2015 in amount EUR 53,807 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 2015 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 2015. As at 31 December 2015, the full value of loan in amount EUR 53,807 thousand (USD 58,580 thousand in original currency) is classified as current interest bearing loans due to banks (note 16).

	2015	2014
Total borrowings	107,471	101,920
Less: cash and cash equivalents	(907)	(10,431)
Net debt	**106,564**	**91,489**
Total equity	35,941	94,593
Total capital	**142,505**	**186,082**
Net debt to capital ratio	**296.50%**	**96.72%**

(All amounts in euro thousands unless otherwise stated)

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 2015 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	-	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**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2014:

	EUR	USD	RUR	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	18,464	7,525	12,758	887	**39,634**
Cash and cash equivalents	6,183	406	152	3,657	33	**10,431**
Total financial assets	**6,183**	**18,870**	**7,677**	**16,415**	**920**	**50,065**
Financial Liabilities						
Loans and borrowings	-	76,927	17,843	2,215	4,935	**101,920**
Financial payables within trade and other payables	7	1,257	7,941	5,446	3,093	**17,744**
Total financial liabilities	**7**	**78,184**	**25,784**	**7,661**	**8,028**	**119,664**

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:

	2015	2014
USD strengthening by 10% (2014: 10%)	(1,725)	(869)
USD weakening by 10% (2014: 10%)	1,725	869
UAH strengthening by 10% (2014: 10%)	665	500
UAH weakening by 10% (2014: 10%)	(665)	(500)
RUR strengthening by 10% (2014: 10%)	-	4
RUR weakening by 10% (2014: 10%)	-	(4)

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.

(All amounts in euro thousands unless otherwise stated)

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:

	2015	2014
Ratings by Moody's		
Ba2	95	-
B1	118	-
Bbb-	-	36
E	50	32
Unrated	609	10,324
Cash on hand	35	39
Total cash and cash equivalents	**907**	**10,431**

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 2015		31 December 2014	
Financial assets	**Carrying value**	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Cash and cash equivalents	907	907	10,431	10,431
Trade and other receivables	14,863	14,863	39,634	39,634
	15,770	**15,770**	**50,065**	**50,065**

(All amounts in euro thousands unless otherwise stated)

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 2015 the Group had approximately 42% (2014: 45%) of its borrowings in fixed rate instruments and 58% (2014: 55%) in variable rate instruments.

At 31 December 2015, if interest rates on borrowings with had been 1% higher/lower (2014: 1%) with all other variables held constant, post-tax profit for the year would have been EUR 468 thousand lower/higher (2014: EUR 499 thousand).

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 14)	19,890	-	-	-
Borrowings	67,770	35,640	4,031	30
Total	**87,660**	**35,640**	**4,031**	**30**

Comparative information at 31 December 2014 is as follows:

	Up to 6 months	**6-12 months**	**1 - 3 years**	**3 - 5 years**
Trade and other accounts payable (note 14)	17,744	-	-	-
Borrowings	59,561	36,828	4,061	1,470
Total	**77,305**	**36,829**	**4,060**	**1,470**

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

	2015	2014
Numerator		
Earnings used in basic and diluted EPS	(72,162)	(71,835)
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 2015:

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

Comparative information for 2014:

	BDO Audit & Assurance B.V.	BDO Accountants &Belasting adviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	96	-	127	**223**
Tax advisory fees	-	31	-	**31**
Total	**96**	**31**	**127**	**254**

35 Subsequent events

Restructuring of the Group's indebtedness

Since the beginning of 2015 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. On the basis of Deloitte's findings since the beginning of 2016 Milkiland is continuing the negotiations with the creditors and hope to finalize the Restructuring agreement in H1 2016.
The total sum of the Group's indebtedness to syndicate as at 31 December 2015 stood at USD 58,580 thousand, including an overdue amount of USD 58,580 thousand.

Entering of new markets

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.
In November 2015 several production subsidiaries of Milkiland Ukraine were cleared for dairy export to China. In the current year Milkiland focuses its efforts on development of distribution channels in this country, primarily targeting on the supplies of dry milk products.

Legal proceedings with Pekao bank

At the end of 2015 and beginning of 2016 Pekao bank in Poland initiated 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 aiming to get the formal control under the pledged assets of Ostrowia cheese plant. Until the current moment Milkiland is able to use the production facilities of Ostrowia and to continue as going concern. Milkiland management is carrying out the negotiations with Pekao bank aimed at the restructuring of the respective indebtedness and confident to settle the issue before the legal enforcement will take place.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2015	31 December 2014
ASSETS			
Current Assets			
Cash and cash equivalents		62	64
Amounts due from group companies	5	71,228	61,835
Other receivables and prepayments	5	34	-
Other taxes receivable	5	-	13
		71,324	**61,912**
Fixed assets			
Goodwill	3	1,193	1,391
Investments in subsidiaries	4	41,907	102,650
		43,100	**104,041**
TOTAL ASSETS		**114,424**	**165,953**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	22,077	24,021
Loans and borrowings	8	53,807	48,250
Other payables	7	3,884	1,533
Other taxes payables	7	6	4
		79,774	**73,808**
Non-Current Liabilities			
Loans and borrowings		-	-
		-	**-**
TOTAL LIABILITIES		**79,774**	**73,808**
Shareholder's equity			
Issued and paid-up share capital		3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		79,866	68,502
Currency translation reserve		(48,651)	(45,845)
Retained earnings and inappropriate result		(48,377)	17,676
Total equity		**34,650**	**92,145**
TOTAL LIABILITIES AND EQUITY		**114,424**	**165,953**

(All amounts in euro thousands unless otherwise stated)

	Notes	2015	2014
Revenue from Group companies		-	10
Administrative expenses	9	(986)	(1,023)
Other expenses		(2)	(46)
Operating loss		**(988)**	**(1,059)**
Finance income	10	5,128	4,532
Finance expenses	11	(5,178)	(5,091)
Dividends from subsidiaries		4,720	1,668
Profit / (loss) before income tax		**3,682**	**50**
Income tax		(236)	(83)
Share of profit of participating interests, after income tax		(76,253)	(71,802)
(Loss) / profit for the year		**(72,807)**	**(71,835)**

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 1,193 thousand (2014: EUR 1,391 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 2015	31 December 2014
JSC Ostankino Dairy Combine, Russia	24,724	33,109
DE Milkiland Ukraine, Ukraine	19,452	67,350
LLC Milkiland RU, Russia	2,425	2,557
LLC Milkiland N.V, Ukraine	(1,811)	(1,693)
Milkiland Intermarket (CY) LTD, Cyprus	(2,601)	(2,095)
MLK Finance Limited, Cyprus	631	664
Milkiland EU sp. z.o.o., Poland	(913)	2,758
Total investments in participating interests	**41,907**	**102,650**

Movement during the year is the following:

	2015	2014
At 1 January	102,650	177,899
Profit for the year	(76,253)	(71,802)
Currency translation differences	2,112	(25,177)
Acquisition of minority shares in Ostankino Dairy Combine, Russia	-	-
Dividends declared by subsidiaries	(4,720)	(1,668)
Revaluation of PPE	18,118	23,398
Investments into subsidiaries	-	-
At 31 December	**41,907**	**102,650**

For the period from 1 January 2015 to 31 December 2015 the Company had the following direct subsidiaries:

Name	Country of incorporation	Share of ownership 31 December 2015	31 December 2014
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 2015	31 December 2014
Amounts due from group companies		
MLK Finance Limited	60,299	50,933
Milkiland EU sp. z.o.o.	10,477	9,577
DE Milkiland Ukraine	314	120
Milkiland Intermarket (CY) LTD	114	99
JSC Ostankino Dairy Combine, Russia	24	1,106
LLC Milkiland RU, Russia	-	-
Total amounts due from group companies	**71,228**	**61,835**
Other receivables and prepayments		
Advances issued	34	-
Other receivables	40	40
Allowance for doubtful debts	(40)	(40)
Total other receivables and prepayments	**34**	**-**
Taxes and social security		
Payroll related taxes	-	-
Input VAT	-	13
Total taxes receivable	**-**	**13**

At 31 December 2015 accounts receivable from MLK Finance Limited represented by EUR 55,437 thousand (2014: EUR 49,713 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 4,862 thousand (2014: EUR 1,220 thousand). The loan issued with interest rate of 7.8% plus LIBOR per annum.

At 31 December 2015 accounts receivable from Milkiland EU sp. z.o.o. include EUR 7,858 thousand (2014: EUR 7,597 thousand) of loan issued to this company with interest rate of 7.8% plus LIBOR per annum, EUR 1,857 thousand (2014: EUR 1,226 thousand) of accrued interest and EUR 762 thousand (2014: EUR 754 thousand) of trade payables.

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 2014	**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**
Total comprehensive income for the year	-	-	(27,568)	23,398	(71,835)	(76,005)
Acquisition of minority shares						
Declaration of Dividends	-	-	-	-	(2,187)	(2,187)
Realised revaluation reserve, net of income tax	-	-	-	(3,648)	3,648	-
Balance as at 31 December 2014	**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)
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**

7. Trade and other payables

	31 December 2015	31 December 2014
Amounts due to Group companies		
Milkiland Corporation	22,068	24,010
LLC Milkiland N.V	9	11
Total amounts due to Group companies	**22,077**	**24,021**
Other payables		
Other accounts payable	62	56
Trade payables	301	130
Interest payable	3 141	1,010
Wages and salaries payable	380	337
Total other payables	**3,884**	**1,533**
Other taxes payable		
Payroll related taxes	4	4
VAT payable	2	-
Total taxes payable	**6**	**4**

Accounts payable to Milkiland Corporation include a financial aid from Milkiland Corporation at the amount of EUR 22,068 thousand (2014: EUR 24,010 thousand). This financial aid to Milkiland Corporation is free of interest rates.

8. Loans and borrowings

Since the beginning of 2015 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 2015 stood at USD 58,580 thousand, including an overdue amount of USD 58,580 thousand.

9. Administrative expenses

	2015	2014
Consultancy fee	54	53
Tax advisory and audit fee	81	97
Wages and salaries	672	710
Other expenses	179	163
Total administrative expenses	**986**	**1,023**

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

10. Finance income

	2015	2014
DE Milkiland Ukraine	-	-
MLK Finance Limited	4,398	3,915
Milkiland EU sp. z.o.o.	631	616
LLC Milkiland RU	-	-
Foreign exchange income, net	98	-
Bank deposits	1	1
Total finance income	**5,128**	**4,532**

11. Finance expenses

	2015	2014
Bank borrowings	5,137	3,843
Milkiland Corporation	-	-
Discounting of loans	-	1,131
Finance foreign exchange loss, net	-	117
Other finance expense	41	-
Total finance expenses	**5,178**	**5,091**

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, 28 April 2016

O. Rozhko **A. Yurkevych** **O. Yurkevych**

V. Rekov **W. S. van Walt Meijer** **G. Logush** **V. Strukov**

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Milkiland N.V.
Attn. Board of Directors
Hillegomstraat 12-14
1058 LS AMSTERDAM

Rotterdam, 29 April 2016
Reference: RRW/RA4955
Subject: Financial statements 2015 of Milkiland N.V.

Dear Sirs,

We confirm our permission to include the following text of our auditor's report in the section "other information" related to the annual report, as part of the annual report that equals the final draft presented to us, of which an initialled copy is enclosed.

Independent auditor's report

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

Report on the audit of the financial statements 2015

Our opinion

We have audited the financial statements 2015 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 2015; 2. the following consolidated statements for 2015: 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 2015 and of its result and its cash flows for 2015 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 2015; 2. the company profit and loss account for 2015; and	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 2015 and of its result for 2015 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	

Material uncertainty related to going concern

We draw your attention to note 1 regarding the economic environment in which the company operates. The company performs a significant part of its activities in Ukraine. The Ukrainian economy is in a protracted crisis, complicated by a military conflict in Eastern Ukraine and the separation of the Autonomous Republic of Crimea. In the course of 2014 international rating agencies significantly downgraded the sovereign debt of Ukraine. More to that, due to the above factors and negative expectation of the country's population, the Ukrainian Hryvnia significantly depreciated to the US Dollar and Euro in 2014. Stabilization of the situation in Ukraine largely depends upon the government actions undertaken in order to address the military conflict and reforming the country's financial, administrative, fiscal and legal system. To solve the above indicated problems, the government introduces measures, such as the partial mobilization of the population for military service, introduction of new taxes and fees, restriction on cash and non-cash foreign currency transactions and so on.

Furthermore we draw attention to the subsequent event paragraph in note 36 to the financial statements which indicates that the company is in continuing negotiations with several banks in order to restructure loan agreements. Due to the current situation in Ukraine and Russia 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 which obtaining ownership of certain assets of the company and early repayment of the loans. This could materially affect the ability of Milkiland to continue as a going concern. The company is dependent on the willingness of the banks to allow time for refinancing of the debts and not enforce early repayment.

Also the company is involved in litigation which is set out in note 30 of the financial statements. This litigation potentially effects the owner ship of certain assets which have been pledged as collateral for these loans.

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 € 3.100 thousand. The materiality is based on a benchmark of both revenue and result before taxes. We have allocated 50% of total materiality to the benchmark revenue and set this at 0,65% of total revenue based on interim figures and reassessed the materiality based on the final figures. The other 50% has been based on the benchmark result before taxes and determined as 6,5% of result before tax. We have used a mixed benchmark due to both the importance of revenue and relevance of result before tax for the users of the consolidated financial statements, considering the nature of the entity's business and industry as well as the entity's current operations. We have also 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.

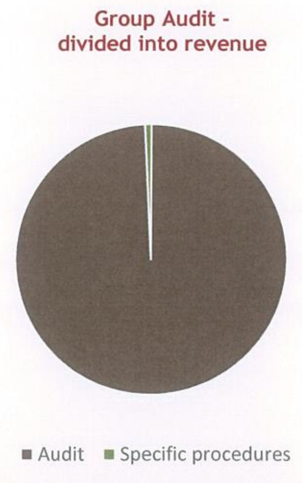
Our group audit mainly focused on significant group entities. We consider a component significant when:

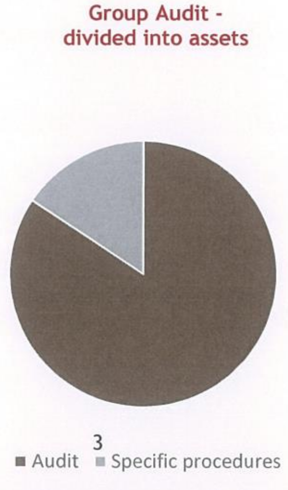
- it is of individual financial significance to the group; or
- the component, due to its specific nature or circumstances, is likely to include significant risks of material misstatement, whether due to fraud or error of the group financial statements.

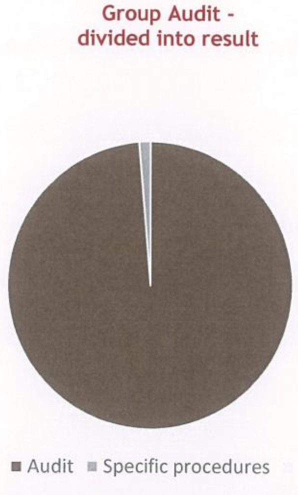
To this extend we:

- performed audit procedures ourselves at group Milkiland N.V.;
- used the work of other BDO auditors in the Ukrainian, the Russian Federation and in Poland. Given the significance of the Ukrainian, Russian and Polish entities we have performed file reviews on the work of BDO Ukraine, BDO Russia and BDO Poland 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:







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
Revenue is one of the key factors for performance of the entity also we recognize 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 5 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 2015; • 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 2015 all properties in both Ukraine and Russia have been subject to appraisal by third party valuators. We and our component auditors have challenged the significant assumptions used by the valuators and have tested the data used for preparing the valuations. Also, we have performed procedures regarding the independence and competence of the valuators 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.

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 2015 compared to the Euro and the US Dollar. We refer to Note 28 to the financial statements	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

for further disclosure on exchange differences.	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.

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, 29 April 2016

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

R.R. Willems MSc RA

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Milkiland: Results of the Year 2015

Press-release

Kyiv, 30th April 2016 – ***Milkiland N.V. has published its consolidated annual report for the year 2015. The Group's strategy to develop sales on its key operational markets in expense of export*** *orientation was* ***fulfilled in order to address the markets challenges.***

Key highlights of 2015

Financials

- **Financial performance:** Revenue declined c. 34% to EUR 191.5 million. Despite optimization in operating costs, lower gross profit resulted in the Group's operating loss of EUR 26.9 million and in a 42% decrease in the consolidated EBITDA to EUR 9.9 million. EBITDA margin was depressed from 5.9% to 5.1% in 2015. As a result of the considerable foreign exchange loss, the Group recognized a loss before tax of EUR 73.1 million. Net loss for 2015 accounted for EUR 73.3 million
- **Financial position:** Total assets decreased by 22% to EUR 186.6 million as of December 31, 2015. Total Debt Ratio constituted 0.81 vs. 0.61 in 2014; Net Debt stood at EUR 106.6 million as of December 31, 2015. Net Debt/EBITDA ratio increased from 5.35 to 10.82 due to increased indebtedness and lower euro-denominated EBITDA.

Operations

- **Raw milk prices**: Continued stagnation of milk farming in Milkiland's core markets, as well as growing demand for locally-produced dairy in Russia and rising input prices in Ukraine resulted in raw milk prices up 5% in Russia and 9% in Ukraine in local currencies equivalent. In euro equivalent, farm-gate prices dropped due to Ukrainian hryvnia and Russian rouble devaluation. Russian dairy import limitations also created additional pressure in the EU market where the raw milk price continued its drop since late 2014, as additional volumes of milk became available for processing. In Poland, the average effective raw milk price was 14% lower y-o-y in 2015.
- **Milk sourcing system:** Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production. The share of cooperatives' milk in the total volume of raw milk collected by the Group in Ukraine was stable and stood at c.27% in 2015 (vs. 28% in 2014). Milkiland Agro focused on efficiency improvements resulting in a 9% rise in per cow yield. As a result, the share of in-house milk intake in Ukraine grew to 9%, up 4pp y-o-y.

The events of 2014, when the escalating conflict in the Eastern Ukraine led to multiple restrictions and limitations in multilateral trade between Russia, Ukraine and EU, significantly cut the export business of the Group. All of these restrictions remained in place in 2015, when export supplies of Milkiland's Ukrainian and Polish subsidiaries to Russian market were diminished.

In the last year the unfavourable influence of this factor was aggravated by deterioration of the macroeconomic situation in Ukraine and continued stagnation of the Russian economy. As the result, the Group's operational and financial results in 2015 were under the significant pressure.

Being pushed to change its business pillar from export orientation towards growing competence in the local markets of the Group's operations, in 2015 Milkiland focused 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.

Last year, Moscow-based Ostankino Dairy Combine, the main subsidiary of the Group in Russia, delivered a moderate growth of sales (in RUB terms) fuelled by increased sales of high value-added fresh dairy together with better pricing for dairy milk products in Russia. This facility held the position of main revenue contributor of Milkiland in 2015 by generating over 50% of the Group's sales in value terms and also delivered the highest profitability within the Group's subsidiaries. An acceleration of Milkiland's efforts aimed at the localization of cheese production in Russia led to growth of the production volume of this product by Rylsk Syrodel division of LLC "Kursk milk" by more than one third on y-o-y basis to c. 5.0 thousand tons.

In Ukraine the Group made additional efforts aimed at the expansion in the domestic dairy market. In particular, Milkiland's share in the cheese segment grew by 0.3pp. to 8.3% in 2015. The Group held a position of TOP-5 player in this segment.

In its geographic diversification efforts, the Group in 2015 continued a development of its Polish division, which controls Ostrowia cheese plant. Milkiland here focused at the development of local distribution network by means of promotion of several types of traditional curd and hard cheese, including the most successful Milkiland's original cheese type King Arthur.

New opportunities for entering to the new markets for Milkiland's business were opened by the end of 2015-beginning of 2016. In November 2015 several production subsidiaries of Milkiland Ukraine were cleared for dairy export to China, while starting from 10 January 2016 other three of them were granted an access to EU dairy market.

Comment by Anatoliy Yurkevych, CEO, Milkiland N.V.

"Milkiland, being the international Group with production assets in Ukraine, Russia and Poland, for several years has been in the epicenter of major geo-political changes, and thus facing challenges on the back of economic and political tension between Russia and European countries triggered the economic crisis in our core markets in Russia and Ukraine.

*While Milkiland's business model remains strong for local sales, intra-region exports, that 2 years ago comprised significant share of the Group's turnover, decreased dramatically. Also, extensive devaluation of local currencies in Ukraine and Russia hit the Group's revenues in EUR terms. The above created necessity to **find new exports** destinations, adapt to changing local market conditions and also focus on the bottom line in the first place.*

Our take to address these challenges was to focus on local operations and cost improvements, as well as searching for new markets, to compensate for blow in revenues caused by borders closure with Russia, and bad shape of Milkiland's core consumer markets.

In 2015 Russian entities of Milkiland managed a moderate advance, both in revenue and profitability. In Ukraine, Milkiland has slightly improved its market share in cheese segment. The Group did fundamental job to decrease its running costs and overheads, with production base consolidated at best performing plants and several non-core farming assets put up for sale.

One of the main achievements of the Group in Ukraine was qualification of its plants for new exports markets, namely China and EU. While there was virtually no impact on business in 2015, in coming years Milkiland expects growing sales of our produce, including butter and dry milk products to these new markets.

The Group's management remains confident to continue further development of the unique international business of Milkiland controlled by Kazakh, Polish and other EU, US and also Ukrainian investors. We hope that the years of hard obstacles are already gone while recovery and steady growth are now returning to our business universe."

About Milkiland N.V.

Milkiland is a diversified dairy producer operating in Russia, Ukraine and Poland, offering a wide range of dairy products such as fresh dairy, cheese and butter, to satisfy consumers in their everyday needs for healthy and tasty foods.

In Russia, the company produces fresh dairy products at Moscow-based OJSC "Ostankino Milk Combine" and sells under Dobryana and Ostankinskaya brands. In Ukraine, the company operates 10 plants and offers wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands.

In Poland, Milkiland Group controls Mazowiecka Spoldzielnia Mleczarska Ostrowia, the cheese production plant located in in Ostrów Mazowiecka town. Milkiland exports dairy products from Ukraine to over 30 countries.

Shares of Milkiland N.V. has been listed on the Warsaw Stock Exchange since December, 6, 2010.

For additional information please contact:

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