Interim Statement

Results of the first quarter 2016

Milkiland N.V. hereby publishes the Group's results of the first three months of 2016.

Highlights of the 1st quarter 2016

Operational results

- In first quarter of 2016 Russian market remains closed for Ukrainian and the EU dairy producers, thus putting additional pressure in the EU and Ukrainian dairy markets. As a result of trade barriers, Ukraine faced slight oversupply of raw milk in the domestic market, however, the Q1 2016 raw milk price remains very high y-o-y (+31%) in hryvnia terms, mainly due to inflation trigger. In Russia, raw milk prices remained almost stable over the period and only demonstrated slight decrease in terms of price by c.3% y-o-y in rouble terms.
- Additional factor that tightened a competition in the Ukrainian dairy market in Q1 2016 was implementation of Free trade zone agreement between Ukraine and EU since January 1, 2016. At the same time, possibilities for import of EU made dairy to Ukrainian market were limited due to continuous devaluation of Ukrainian hryvnia.
- During the first quarter of 2016 the Group has followed its strategy of growing local competence in the markets of its operations. In particular, our largest, Russian division concentrated on gaining a new market share in the traditional cheese and whole-milk products segments. Moreover, Russian subsidiary Rylsk cheese almost tripled its cheese production for the period.
- In Q1 2016, the Group decreased its overall output by 16% y-o-y following its strategy to focus on production of higher value added products in its key markets. The Group prioritized preserving its profitability rather than lowering products prices. In particular, Milkiland decreased cheese production volumes in Ukraine, but increased them in Russia capitalizing on import substitution after trade barriers implementation. Ostankino Dairy Combine capitalized on the higher demand for value-added fresh dairy products in line with the substitution of imported EU and Ukrainian made dairy.
- Milkiland EU and Milkiland Intermarket decreased their dry milk products sales to third countries by c. 25% in volume terms in Q1 2016 due to unfavorable global market pricing conditions.

Financial results

- Absence of cheese exports from Ukraine and Poland to Russia, unfavorable pricing for dry milk products in the global dairy market, as well as further Ukrainian hryvnia and Russian rouble devaluation resulted in a c. 22% drop in the consolidated revenues of the Group in Q1 2016 to EUR 36.5 million.
- In order partly offset a downward pressure on the Group's revenues, in the first quarter of 2016 Milkiland increased its product prices in Russian and Ukrainian markets in line with general markets trends.
- On the back of lower top-line and 21% reduction in costs, gross profit of the Group declined by c. 30% and stood at EUR 5.2 million, while gross margin decreased from 15.7% in Q1 2015 to 14.1% in Q1 2016.

- A significant cut in the S&D (-32% y-o-y) and administrative expenses (-23% y-o-y) slightly improved the Group's EBITDA from c. EUR 1.9 in Q1 2015 to c. EUR 2.0 million in Q1 2016, implying EBITDA margin of 5.6%, up 1.5 pp y-o-y.
- Non-cash foreign exchange loss triggered by further Russian rouble and Ukrainian hryvnia devaluation was less significant in the first quarter of 2016 and amounted to c. EUR 13.2 million vs c. EUR 33.6 million in the same period of 2015. But, it remained the key contributor to the Group's net loss of EUR 16.4 million in Q1 2016 compared to net loss of EUR 35.2 million in Q1 2015.
- A further local currencies devaluation in the Group's key markets contributed to a c.8% decrease in the balance value of PPE in the euro terms.

Overview of the Group's sales and profitability by geographical segments

While the highly profitable Russian market remained closed for the Ukrainian cheese makers, the Ukrainian dairy market faced tightening competition also on the back of implementation of FTZ agreement with the EU. Moreover, Russia's trade barriers led to some oversupply in the EU market thus limiting the possibilities for exports of dairy products from Ukraine to EU countries.

In macroeconomic environment, Russian rouble depreciated against EUR 19% y-o-y in Q1 2016, while hryvnia lost 11% y-o-y over the period, thus depressing the Group's top-line in EUR terms. In order partly to offset the devaluation effect, Milkiland in Q1 2016 managed to increase the prices to finished dairy in Ukraine and in Russia in line with general trends in these markets.

On the positive side, the closure of the Russian market for dairy imports from EU and Ukraine resulted in an increased demand for a high-quality substitution of previously imported products. To cover this demand, Ostankino Dairy Combine decreased volume sales of low-marginal dairy and reoriented towards higher value-added products. As the result, whole milk products volume sales by the Combine declined by 12% on y-o-y basis. More important, cheese volumes produced by Rylsk cheese almost tripled over the period and contributed to an almost 90% increase in the Group's overall cheese volume sales and 57% increase in cheese value sales in Russia.

All the positive factors mentioned above were not enough to offset the influence of further depreciation of Russian rouble reinforced by increased operating expenses of Ostankino, mainly triggered by the higher land taxation in Moscow. This led to decline of the Russian segment revenue by c.12% to EUR 24.8 million and decrease of its EBITDA by one-third to c. EUR 1.9 million in Q1 2016 in comparison with the same period of 2015.

Tightened completion and limited possibilities for exports resulted in the Group's volume and value drop in cheese segment in Ukraine in Q1 2016. Milkiland focused on lowering cheese output and increasing price, thus preserving the segment's Q1 2016 profitability. As the result, despite c. 33% decline in the Ukrainian segment's revenue to EUR 9.2 million due to lower sales volumes and depreciation of Ukrainian hryvnia, segment's EBITDA stood at positive EUR 0.4 million in comparison with the same, but negative, amount of EBITDA generated in Q1 2015.

Steady production and sales of cheese in Q1 2016 together with the development of the distribution network for this product in Poland, as well as finding of new distribution channels for Polish made dry-milk products in EU, including Baltic states, brought a profitability of the Polish segment in the reporting period to positive territory.

Overview of the Group sales and profitability by business segments

Whole-milk dairy was the largest segment in terms of revenue and business segments EBITDA[1] providing for 61% of revenue (59% in Q1 2015) and being the largest EBITDA-generating segment

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

in Q1 2016. The segment revenue declined 19% to EUR 22.3 million on a back of key operational currencies devaluation, while segment EBITDA fell 48% from EUR 2.7 million to EUR 1.4 million, reflecting a drop in profitability of the Russian division. The segment's Q1 2016 EBITDA margin reached 6.3%, down 3.5 pp y-o-y.

Cheese & butter segment contributed approximately 31% to the Group's total revenue (the same in Q1 2015). Segment revenue decreased by c. 22% to EUR 11.2 million due to both volume contraction and operational currencies devaluation. On a positive side, segment generated a positive EBITDA of EUR 0.7 million compared to negative result reported in Q1 2015, implying Q1 2016 segment's EBITDA margin of 6.6%.

In *Ingredients and other products segment*, revenue decreased by 40% to EUR 2.9 million on the back of lower prices and unfavorable international market conjuncture. However, the segment reported positive EBITDA of EUR 0.1 million with EBITDA margin of 4.8% in Q1 2016 reflecting and improvement of Milkiland EU subsidiary's profitability compared to negative result of EUR 0.2 million in Q1 2015.

Key Financial results

Cost of sales and gross profit

Cost of sales decreased 21% y-o-y (or slightly slower than revenues) to EUR 31.2 million, due to lower raw milk prices in Poland and currency devaluation in Ukraine and Russia.

As a result of the top-line decline, the Group's gross profit was 30% lower and constituted EUR 5.2 million. The gross margin declined from 15.7% to 14.1%.

Operating result and EBITDA

The Group's Q1 2016 selling and distribution expenses decreased 32% compared to Q1 2015, to EUR 3.0 million, outperforming overall revenues decline as well as Ukrainian hryvnia and Russian rouble devaluation. The effective cost management significantly reduced marketing costs in Ukraine over the reporting period.

The Group's administrative expenses decreased in line with revenues by 23% on y-o-y basis to EUR 3.0 million reflecting lower labor costs due to Ukrainian hryvnia and Russian rouble depreciation.

The Group's other income increased significantly y-o-y in Q1 2016 to EUR 0.8 million compared to almost zero net operating expenses reported in Q1 2015 due to higher gain on disposal of non-current assets.

Decline in the gross profit led to almost zero operating profit of the Group in Q1 2016 in comparison with the negative operating profit in Q1 2015 in the amount of c. EUR 1.0 million. The Group's EBITDA increased by 6.7% to c. EUR 2.0 million in Q1 2016.

Loss before tax and net loss

A further depreciation of Ukrainian hryvnia and Russian rouble led to a one-off non-cash financial currency translation loss of EUR 13.2 million. This factor mainly contributed to a loss before tax of c. EUR 16.2 million and net loss of the Group amounted c. EUR 16.4 million.

REPRESENTATION

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 31 March 2016 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the three months ended 31 March 2016 gives a true view of the developments, achievements and situation of the Company, including a description of the key risks and threats.

Board of Directors of Milkiland N.V.

Amsterdam, 14 May 2016

A. Yurkevych O. Yurkevich O. Rozhko

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

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the three months ended 31 March 2016

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MILKILAND N.V.
Condensed consolidated interim statement of financial position
For the three months ended 31 March 2016
(All amounts in euro thousands unless otherwise stated)

	Notes	31 March 2016 (unaudited)	31 December 2015 (audited)	31 March 2015 (unaudited)
ASSETS				
Current Assets				
Cash and cash equivalents	6	886	907	10,151
Trade and other receivables	7	20,977	19,506	50,227
Inventories	8	10,723	12,193	14,746
Current biological assets	12	1,485	1,621	1,741
Current income tax assets		530	947	376
Other taxes receivable	9	4,791	5,417	8,052
		39,392	**40,591**	**85,293**
Non-Current Assets				
Goodwill	10	1,726	1,746	2,074
Property, plant and equipment		108,137	117,787	116,072
Investment property		17,603	20,065	
Non-current biological assets	12	1,378	1,507	1,611
Other intangible assets		2,266	1,695	2,033
Deferred income tax assets		2,948	3,159	5,167
		134,058	**145,959**	**126,957**
TOTAL ASSETS		**173,450**	**186,550**	**212,250**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	13	27,734	24,659	24,523
Current income tax liabilities		19	351	142
Other taxes payable	14	2,084	2,118	2,466
Short-term loans and borrowings		100,458	103,410	105,451
		130,295	**130,538**	**132,582**
Non-Current Liabilities				
Loans and borrowings	15	3,033	4,061	5,312
Deferred income tax liability		12,939	14,706	14,995
Other non-current liabilities		198	1,304	287
		16,170	**20,071**	**20,594**
Total liabilities		**146,465**	**150,609**	**153,176**
Equity attributable to owners of the Company				
Share capital	16	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		78,459	79,866	67,158
Currency translation reserve		(41,040)	(48,651)	(45,579)
Retained earnings		(63,299)	(48,377)	(15,838)
		25,932	**34,650**	**57,553**
Non-controlling interests		**1,053**	**1,291**	**1,521**
Total equity		**26,985**	**35,941**	**59,074**
TOTAL LIABILITIES AND EQUITY		**173,450**	**186,550**	**212,250**

MILKILAND N.V.
Condensed consolidated interim statement of comprehensive income
For the three months ended 31 March 2016
(All amounts in euro thousands unless otherwise stated)

	Notes	2016 (unaudited)	2015 (unaudited)
Revenue	17	36,465	46,687
Change in fair value of biological assets		(91)	170
Cost of sales	18	(31,219)	(39,530)
Gross Profit		**5,155**	**7,327**
Selling and distribution expenses	19	(3,026)	(4,451)
Administrative expenses	20	(2,992)	(3,886)
Other income, net	21	864	48
Operating profit (loss)		**1**	**(962)**
Finance income	22	-	1,221
Finance expenses	23	(16,195)	(36,337)
Loss before tax		**(16,194)**	**(36,078)**
Income tax	24	(248)	908
Net loss for the year		**(16,442)**	**(35,170)**
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		7,486	(349)
Total comprehensive loss		**(8,956)**	**(35,519)**
Loss attributable to:			
Owners of the Company		(16,328)	(34,858)
Non-controlling interests		(114)	(312)
		(16,442)	**(35,170)**
Total comprehensive loss attributable to:			
Owners of the Company		(8,718)	(34,592)
Non-controlling interests		(238)	(927)
		(8,956)	**(35,519)**
Earnings per share		(52.25)	(111.76)

(All amounts in euro thousands unless otherwise stated)

	Note	2016 (unaudited)	2015 (unaudited)
Cash flows from operating activities:			
Loss before income tax		**(16,194)**	**(36,078)**
Adjustments for:			
Depreciation and amortization	21	2,599	2,949
Loss from disposal and write off of inventories	21	53	4
Change in provision and write off of trade and other accounts receivable	21	8	319
Change in provision and write off of unrealised VAT	21	136	(25)
Gain/(loss) from write off, revaluation and disposal of non-current assets	21	(558)	66
Change in fair value of biological assets		91	(170)
Operational foreign exchange results, net	21	(8)	(203)
Finance income	22	16,195	(1,221)
Finance expenses	23	13,878	36,337
Write off of accounts payable	21	(1)	(1)
Operating cash flow before movements in working capital		**2,321**	**1,977**
Increase in trade and other accounts receivable		(2,978)	(1,433)
Decrease in inventories		808	1,397
Increase in biological assets		(216)	(208)
Increase in trade and other payables		2,451	2,333
Decrease in other taxes receivable		48	531
Decrease/(increase) in other taxes payable		(34)	403
Net cash provided by/(used in) operations:		**2,400**	**5,000**
Income taxes paid		(57)	(681)
Interest received		27	255
Interest paid		(1,449)	(1,523)
Net cash provided by/(used in) operating activities		**921**	**3,051**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	11	(816)	(683)
Net cash used in investing activities		**(816)**	**(683)**
Cash flows from financing activities			
Proceeds from borrowings	15	8,441	6,487
Repayment of borrowings	15	(8,546)	(8,435)
Commission paid and fair value adjustment		(4)	-
Net cash (used in)/provided by financing activities		**(109)**	**(1,948)**
Net decrease in cash and equivalents		**(4)**	**420**
Cash and equivalents, beginning of the period	6	**907**	**10,431**
Effect of foreign exchange rates on cash and cash equivalents		(17)	(700)
Cash and equivalents, end of the period	6	**886**	**10,151**

MILKILAND N.V.
Condensed consolidated interim statement of changes in equity
For the three months ended 31March 2016
(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							
	Share capital (unaudited)	Share premium (unaudited)	Foreign currency translation reserve (unaudited)	Revaluation reserve (unaudited)	Retained earnings (unaudited)	Total stockholders' equity (unaudited)	Non-controlling interests (unaudited)	Total equity (unaudited)
Balance at 1 January 2015	**3,125**	**48,687**	**(45,845)**	**68,502**	**17,676**	**92,145**	**2,448**	**94,593**
Loss for the period	-	-	-	-	(34,858)	**(34,858)**	(312)	**(35,170)**
Other comprehensive loss, net of tax effect	-	-	266	-	-	**266**	(615)	**(349)**
Total comprehensive loss for the period	**-**	**-**	**266**	**-**	**(34,858)**	**(34,592)**	**(927)**	**(35,519)**
Realised revaluation reserve, net of income tax	-	-	-	(1,344)	1,344	**-**	-	**-**
Balance at 31 March 2015	**3,125**	**48,687**	**(45,579)**	**67,158**	**(15,838)**	**57,553**	**1,521**	**59,074**
Balance at 1 January 2016	**3,125**	**48,687**	**(48,651)**	**79,866**	**(48,377)**	**34,650**	**1,291**	**35,941**
Loss for the period	-	-	-	-	(16,328)	**(16,328)**	(114)	**(16,442)**
Other comprehensive loss, net of tax effect	-	-	7,611	(1)	-	**7,610**	(124)	**7,486**
Total comprehensive loss for the period	**-**	**-**	**7,611**	**(1)**	**(16,328)**	**(8,718)**	**(238)**	**(8,956)**
Realised revaluation reserve, net of income tax	-	-	-	(1,406)	1,406	-	-	-
Balance at 31 March 2016	**3,125**	**48,687**	**(41,040)**	**78,459**	**(63,299)**	**25,932**	**1,053**	**26,985**

1 The Group and its operations

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the three months ended 31 March 2016 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The financial statements were approved by the Board of Directors on 14 May 2016.

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

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

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

As at 31 March 2016, the Group employed 5463 people.

(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations (continued)

Subsidiaries of the Company are presented below:

Name	Country of incorporatio	Principal activity	Effective share of ownership 31 March 2016	31 December 2015	31 March 2015
MLK Finance Limited	Cyprus	Trade	100.0%	100.0%	100.0%
Milkiland Intermarket (CY)	Cyprus	Trade	100.0%	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	Trade	100.0%	100.0%	100.0%
Milkiland Corporation	Panama	Trade	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	Managing/Trade	100.0%	100.0%	100.0%
Ostrowia sp. z.o.o	Poland	Production entity	100.0%	100.0%	100.0%
JSC Ostankino Dairy	Russia	Production entity	100.0%	100.0%	100.0%
LLC Milkiland RU	Russia	Managing/Trade	100.0%	100.0%	100.0%
LLC Moloko-Kursk	Russia	Production entity	100.0%	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	Managing	100.0%	100.0%	100.0%
DE Aromat	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Prometey	Ukraine	Production entity	100.0%	100.0%	100.0%
PE Ros	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	Trade	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	Production entity	76,0%	76,0%	76,0%
PrJSC Gorodnia Milk Plant	Ukraine	Production entity	72.3%	72.3%	72.3%
LLC Agrosvit	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Molochni vyroby	Ukraine	Trade	100.0%	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	Production entity	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	Production	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	Managing	100.0%	100.0%	100.0%
PrJSC Transportnyk	Ukraine	Service provider	70.3%	70.3%	70.3%
LLC Milkiland Agro	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	Trade	100.0%	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	Trade	100.0%	100.0%	100.0%
PJSC Iskra	Ukraine	Agricultural	70.8%	70.8%	70.8%
DE Agrolight	Ukraine	Production entity	100.0%	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Bahmachregionpostach	Ukraine	Grain elevator	100.0%	100.0%	100.0%
ALLC Nadiya	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Uspih-Mena	Ukraine	Agricultural	100.0%	100.0%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	Agricultural	97.5%	97.5%	97.5%
LLC Agro-Mena	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Iskra-Sloboda	Ukraine	Agricultural	100.0%	100.0%	100.0%
LLC Lendinvest 3000	Ukraine	Investment assets	100.0%	100.0%	-
LLC Agrolendinvest	Ukraine	Investment assets	100.0%	100.0%	-
LLC Phobostrade	Ukraine	Investment assets	100.0%	100.0%	-
LLC Kilchensky Berig	Ukraine	Investment assets	100.0%	100.0%	-
LLC Novomoskovsk Dairy	Russia	Production entity	100.0%	100.0%	-
UA TRADE Sp. z o.o.	Poland	Trade	100.0%	-	-

(All amounts in euro thousands unless otherwise stated)

Newholm Systems S.A.	Panama	Trade	100.0%	-	-
Agrointer Corporation	Panama	Trade	100.0%	-	-

During the three months ended 31 March 2016, the Group finalized registration of new subsidiaries UA TRADE Sp.z.o.o in Poland, Newholm Systems S.A. and Agrointer Corporation in Panama.

2 Summary of significant accounting policies

Basis of preparation and statement of compliance. This condensed consolidated interim financial information for the three months ended 31 March 2016 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2015.

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

Adoption of new or revised standards and interpretations.

New and amended standards adopted by the Group. There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Group.

New standards and interpretations not yet adopted. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

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

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

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

(All amounts in euro thousands unless otherwise stated)

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk. During the three months ended 31 March 2016 the in-house milk production covered c.17% of milk intake in Ukraine.

2 Summary of significant accounting policies (continued)

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

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

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

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

	US dollar	UAH	RUR	PLN
As at 31 March 2016	1.1385	29.8493	76.5386	4.2684
Average for three months ended 31 March 2016	1.1026	28.2962	82.3373	4.3602
As at 31 December 2015	1.0887	26.1295	79.6972	4.2615
As at 31 March 2015	1.0759	25.2219	63.3695	4.0890
Average for three months ended 31 March 2015	1.1273	23.7189	70.4340	4.1956

3 Critical accounting estimates and judgments

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

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

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

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

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

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

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

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

(All amounts in euro thousands unless otherwise stated)

4 Segment information

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

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

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

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

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

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

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

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

	2016				**2015**			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	24,753	9,220	2,524	36,497	28,249	13,655	5,086	46,990
Inter-segment revenue	-	(32)	-	(32)	-	-	(303)	(303)
Revenue from external customers	24,753	9,188	2,524	36,465	28,249	13,655	4,783	46,687
EBITDA	**1,891**	**375**	**24**	**2,290**	**2,848**	**(77)**	**(354)**	**2,417**
EBITDA margin	8%	4%	1%	6%	10%	(1%)	(7%)	5%
Depreciation and amortisation	676	1,427	496	2,599	667	1,839	443	2,949

(All amounts in euro thousands unless otherwise stated)

4 Segment information (continued)

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

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

	2016				2015			
	Cheese & butter	Whole-milk products	Ingredients	Total	Cheese & butter	Whole-milk products	Ingredients	Total
Total segment revenue	11,225	22,338	2,934	36,497	14,620	27,555	4,815	46,990
Inter-segment revenue	-	-	(32)	(32)	(298)	-	(5)	(303)
Revenue from external customers	11,225	22,338	2,902	36,465	14,322	27,555	4,810	46,687
EBITDA	**742**	**1,408**	**140**	**2,290**	**(117)**	**2,704**	**(170)**	**2,417**
EBITDA margin	7%	6%	5%	6%	(1%)	10%	(4%)	5%
Depreciation and amortisation	934	1,079	586	2,599	1,534	1,272	143	2,949

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

	2016	2015
EBITDA	2,290	2,417
Other segments EBITDA	(255)	(510)
Total segments	**2,035**	**1,907**
Depreciation and amortisation	(2,599)	(2,949)
Loss from disposal and impairment of non-current assets	558	80
Finance expenses	(16,195)	(36,337)
Finance income	(111)	1,221
Loss before tax	**(16,194)**	**(36,078)**

(All amounts in euro thousands unless otherwise stated)

5 Balances and transactions with related parties

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

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

Entities under common control:	**2016**	**2015**
Revenue	15	159

The outstanding balances due from related parties were as follows:

Entities under common control:	**31 March 2016**	**31 December 2015**	**31 March 2015**
Trade accounts receivable	247	261	4,659
Other financial assets	2,412	2,251	20,013
Other accounts receivable	80	64	276

Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the three months ended 31 March 2016 paid or payable to key management for employee services is EUR 167 thousand (2014: EUR 172 thousand).

6 Cash and cash equivalents

Cash in bank is available for demand and earns interest at floating rates based on daily bank deposit rates.

	31 March 2016	**31 December 2015**	**31 March 2015**
Short term deposits	39	39	8,321
Cash in bank and cash on hand	847	868	1,830
Total cash and cash equivalents	**886**	**907**	**10,151**

(All amounts in euro thousands unless otherwise stated)

7 Trade and other receivables

	31 March 2016	31 December 2015	31 March 2015
Trade accounts receivable	13,657	14,724	21,923
Other financial assets	9,768	10,463	20,013
Allowance for doubtful debts	(9,301)	(10,324)	(2,838)
Total financial assets within trade and other receivables	**14,124**	**14,863**	**39,098**
Advances issued	3,436	2,197	9,304
Other receivables	4,015	3,124	2,312
Allowance for doubtful debts	(598)	(678)	(487)
Total trade and other accounts receivable	**20,977**	**19,506**	**50,227**

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

8 Inventories

	31 March 2016	31 December 2015	31 March 2015
Raw and other materials	4,849	5,870	5,973
Finished goods and work in progress	5,777	6,191	8,440
Agriculture produce	97	132	333
Total inventories	**10,723**	**12,193**	**14,746**

9 Other taxes receivable

	31 March 2016	31 December 2015	31 March 2015
VAT recoverable	4,684	5,291	7,946
Payroll related taxes	72	81	95
Other prepaid taxes	35	45	11
Total other taxes receivable	**4,791**	**5,417**	**8,052**

(All amounts in euro thousands unless otherwise stated)

10 Goodwill

	2016	**2015**
Balance at 1 January	1,746	2,147
Foreign currency translation	(20)	(73)
Balance at 31 March	**1,726**	**2,074**

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

11 Property, plant and equipment and intangible assets

During three months ended 31 March 2016 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 816 thousand (2015: EUR 683 thousand), which comprised mainly modernisation of milk processing capacities.

(All amounts in euro thousands unless otherwise stated)

12 Biological assets

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

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

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

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

As at 31 March 2016, 2015 and 31 March 2015 biological assets comprise the following groups:

	31 March 2016		31 December 2015		31 March 2015	
Current biological assets of animal breading	Units	Amount	Units	Amount	Units	Amount
Cattle	142	1,273	4,356	1,594	4,829	1,709
Other livestock	-	1	-	6	-	2
Total biological assets of animal breading	**142**	**1,274**	**4,356**	**1,600**	**4,829**	**1,711**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount	Hectares	Amount
Wheat	-	-	-	-	-	-
Other	-	211	-	21	-	30
Total biological assets of plant growing		**211**	-	1,621	**-**	**30**
Total current biological assets		**1,485**		**1,901**		**1,741**
Non-current biological assets	Units	Amount	Units	Amount	Units	Amount
Cattle	94	1,376	2,642	1,507	2,777	1,609
Other livestock	-	2	-	-	-	2
Total non-current biological assets	**94**	**1,378**	**2,642**	**1,507**	**2,777**	**1,611**

(All amounts in euro thousands unless otherwise stated)

13 Trade and other payables

	31 March 2016	31 December 2015	31 March 2015
Trade payables	13,425	15,000	16,969
Accounts payable for fixed assets	24	37	61
Interest payable	5,833	4,653	1,371
Other financial payables	158	200	(605)
Total financial liabilities within trade and other payable	**19,440**	**19,890**	**17,796**
Wages and salaries payable	1,692	1,406	1,960
Advances received	3,780	944	1,897
Other accounts payable	1,588	1,399	1,279
Accruals for employees' unused vacations	1,234	1,020	1,591
Total trade and other payables	**27,734**	**24,659**	**24,523**

Financial liabilities are normally settled within 60-days period.

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

14 Other taxes payable

	31 March 2016	31 December 2015	31 Marc 2015
VAT payable	798	952	1,313
Payroll related taxes	1,189	1,069	958
Other taxes payable	97	97	195
Total other taxes payable	**2,084**	**2,118**	**2,466**

(All amounts in euro thousands unless otherwise stated)

15 Loans and borrowings

	31 March 2016	31 December 2015	31 March 2015
Current			
Interest bearing loans due to banks	98,796	101,862	104,240
Loans from non-financial institutions	-	-	17
Bank overdrafts	518	512	413
Finance leases	1,144	1,036	781
Total current borrowings	**100,458**	**103,410**	**105,451**
Non-current			
Interest bearing loans due to banks	2,004	2,894	3,737
Finance leases	1,029	1,167	1,575
Total non-current borrowings	**3,033**	**4,061**	**5,312**
Total borrowings	**103,491**	**107,471**	**110,763**

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

	2016	2015
Balance at 1 January	**107,471**	**101,906**
Obtained new loans and borrowings	8,437	6,486
Repaid loans and borrowings	(8,546)	(8,434)
Foreign exchange (gain)/loss	(3,871)	10,805
Balance at 31 March	**103,491**	**110,763**

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 31 March 2016 and 31 December 2015 were as follows:

	31 March 2016					31 December 2015				
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	PLN	Total
12 months or less Outstanding balance, thousand EUR	71,246	8,848	16,757	3,608	**100,459**	73,706	10,109	15,967	3,628	**103,410**
1-5 years Outstanding balance, thousand EUR	2,003	-	76	954	**3,033**	2,894	-	49	1,118	**4,061**

15 Loans and borrowings (continued)

As at 31 March 2016 the Group has not met requirement in respect of Borrowings to EBITDA ratio and EBITDA to interest expenses ratio. A waiver of breach of covenants being negotiated and Management are in process of negotiation with lenders as at the date of these financial statements approval.

16 Share capital

Share capital as at 31 March is as follows:

	2016		2015	
	Number of shares	EUR 000	Number of shares	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
Ordinary shares of 10c each				
At 1 January	31,250,000	3,125	31,250,000	3,125
At 31 March	**31,250,000**	**3,125**	**31,250,000**	**3,125**

17 Revenue

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

	2016	2015
Cheese & Butter	11,225	14,322
Whole-milk products	22,338	27,555
Ingredients	2,902	4,810
Total revenue	**36,465**	**46,687**

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

	2016	2015
Russia	24,684	28,249
Ukraine	8,745	11,815
Poland	1,731	4,783
Other	1,305	1,840
Total revenue	**36,465**	**46,687**

(All amounts in euro thousands unless otherwise stated)

18 Cost of sales

	2016	2015
Raw and other materials	23,381	29,798
Wages and salaries	1,702	1,878
Depreciation	2,336	2,528
Transportation costs	452	765
Gas	876	1,275
Electricity	1,006	949
Social insurance contributions	383	596
Repairs of property, plant and equipment	490	401
Water	75	76
Other	673	798
Changes in finished goods and work in progress	(155)	466
Total cost of sales	**31,219**	**39,530**

19 Selling and distribution expenses

	2016	2015
Transportation costs	1,457	1,695
Security and other services	95	396
Marketing and advertising	232	970
Wages and salaries	786	939
Social insurance contributions	187	293
Licence fees	6	12
Rental costs	45	64
Depreciation and amortisation	57	47
Other	161	35
Total selling expenses	**3,026**	**4,451**

(All amounts in euro thousands unless otherwise stated)

20 Administrative expenses

	2016	2015
Wages and salaries	1,421	1,699
Social insurance contributions	224	376
Taxes and other charges	369	340
Representative charges	43	50
Other utilities	36	43
Bank charges	64	82
Repairs and maintenance	66	75
Depreciation and amortisation	182	355
Consulting fees	178	207
Security and other services	83	110
Transportation costs	64	93
Property insurance	11	9
Rental costs	85	70
Communication	34	48
Office supplies	7	13
Other	125	316
Total administrative expenses	**2,992**	**3,886**

21 Other income, net

	2016	2015
Government grants recognised as income	359	61
Gain from write off of accounts payable	1	1
Change in provision and write off of trade and other accounts receivable	(8)	(319)
Depreciation and amortisation	(24)	(19)
Other income, net	223	221
Gain/(loss) from disposal of non-current assets	558	(66)
Loss from disposal and write off of inventories	(53)	(4)
Penalties	(64)	(55)
Operational foreign exchange results, net	8	203
Change in provision and write off of VAT receivable	(136)	25
Total other expenses/(income), net	**864**	**48**

22 Finance income

	2016	2015
Finance foreign exchange gain	-	1,023
Bank deposits	-	198
Total finance income	**-**	**1,221**

(All amounts in euro thousands unless otherwise stated)

23 Finance expenses

	2016	2015
Bank borrowings	2,902	2,701
Other borrowings	23	29
Finance leases	23	31
Finance foreign exchange loss	13,247	33,576
Total finance expenses	**16,195**	**36,337**

24 Income tax

	2016	2015
Current income tax	162	481
Deferred income tax	86	(1,389)
Total income tax	**248**	**(908)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2016 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2015: 18%), Russian profit tax was levied at the rate of 20% (2015: 20%), Poland profit tax was levied at the rate of 19% (2015: 19%). In 2016 the tax rate for Panama operations was 0% (2016: 0%) on worldwide income.

25 Contingent and deferred liabilities

Litigation

The Group from time to time participates in legal proceedings.

In particular, 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.

Insurance policies

The Group insures all significant property. As at 31 March 2016 and 31 March 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.

26 Capital management policy

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

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the three months ended 31 March 2016 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 March 2016 in amount EUR 51,454 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 March 2016 the Group has not met requirement in respect of above mentioned covenants. A waiver of breach of covenants is being negotiated and Management is in process of loan restructuring negotiation with lenders as at the date of these financial statements approval. According to the original loan terms signed on December 16, 2012, the Company should repay the whole amount of loan denominated in USD till the end of December 2015. As at 31 March 2016, the full value of loan in amount EUR 58,580 thousand (equivalent EUR 51,454 thousand in original currency) is classified as current interest bearing loans due to banks (note 15).

27 Earnings per share

	2016	**2015**
Numerator		
Earnings used in basic and diluted EPS	**(16,328)**	**(34,858)**
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	**31,250**	**31,250**

28 Subsequent events

On 15 April, Ostankino Dairy Combine and Public Stock Company Vozhrogdenie Bank agreed to extend a term of two loan agreements with the indication of the amount of credit line of each to the limit of RUR 300 million (with the total amount of EUR 8,02 million). The loans were secured by pledge of PPE and real estate.