



## Interim Statement

### Results of the first quarter 2013

Milkiland N.V. hereby publishes the Group's results of the first three months of 2013.

#### Highlights of the 1<sup>st</sup> quarter 2013

##### *Operational results*

- Spike in global milk prices, coupled with seasonal shortage in Ukraine and Russia, resulted in some margin squeeze to dairy producers; in these circumstances the Group looked to optimize its cost base by refraining from the most expensive milk, and change accordingly its product mix, in order to sustain planned profitability
- Revenue growth comprised 5% on y-o-y basis, with significant increase in fresh dairy and ingredients, and decrease in cheese due to shortage of affordable raw milk
- Ostrowia started production of dry milk products and curd cheese in February 2013; financial result for Q1 2013 is negative at -EUR 0.9 million, reflecting start-up costs. Full launch of Ostrowia is expected in May 2013
- Completed acquisition of Syrodel dairy plant in Russia

##### *Financial results*

- Revenues grew by c. 5% to EUR 71.1 million driven mainly by better WMP sales, both in Russia and Ukraine
- Gross profit and EBITDA, although decreased on y-o-y basis by, respectively, 4% (to c. EUR 14.5 million) and 10% (to EUR 6 million), were in line with the Group's annual budget, and the Group's growth plan for 2013 remains intact
- Net profit depressed by c.47% to EUR 1.0 million, as a result of lower operating profit
- Higher than expected milk prices and launch of Ostrowia were main factors restraining EBITDA and net profit development in Q1 2013

#### Overview of Operations in Q1 2013

##### *Sales revenues*

In order to address higher than expected raw milk prices, the Group in Q1 2013 focused on keeping sustainable margins by limiting milk purchases from the most expensive suppliers. As a result, the milk constraint was more acute than usually, and Milkiland had to prioritize across its product segments. Milkiland maintained positive momentum gained in 2012 in WMP segment, and advanced by 26% in fresh dairy compared to Q1 2012. Cheese sales were lower due to shortage of milk at economically viable price, and expected to recover after milk prices correct during upcoming "high season" of milk production. Ingredients sales were up 23% reflecting start of milk powder operations at Ostrowia.

##### *Milk sourcing*

In line with its strategy to build up an integrated supply system, Milkiland put further efforts to support milk cooperatives and develop in-house milk production. In Q1 2013, milk supply from cooperatives exceeded 20%, from own farms c.4%, of the total milk intake in Ukraine. The in-house milk output grew by c.10% y-o-y. The first section of new dairy farm will start operations in Q2 2013.

### *Launch of Ostrowia*

In the first quarter of 2013, the Group expanded its operations to Poland with dairy production launched at Ostrowia. In Q1 2013 Ostrowia served the local market with curd and processed cheese, and also produced dry milk products for the EU market.

Start-up costs of Ostrowia in Q1 2013 were EUR 0.9 million, comprising of one-off expenses associated with launch of plant, and overheads not yet covered by operational profits.

After completion of reconstruction in Q2 2013 Ostrowia will start hard cheese production and seek for veterinary approvals for exports to Russia and Ukraine. Milkiland expects that Ostrowia will generate positive results for the whole year 2013.

### *Acquisition of Syrodel*

In the first quarter of 2013, the Group finished acquisition of production assets of JSC "Syrodel" located in Rylsk city of Kursk region of Russia. The deal was initiated in 2012 and finalized in February 2013. The plant is designed to produce cheese (up to 3.5 kt/ year), whole milk products and butter. Milkiland plans to use Syrodel to produce hard and specialty cheeses for Russian market and serve as supplier of butter, cream and other products for the Group's Ostankino Dairy Combine based in Moscow. During 2013 Milkiland intends to increase capacity utilization of Syrodel, focusing on cheese and whole milk products.

## **Overview of Financial Results in Q1 2013**

### **Segment revenue and performance**

*Whole-milk dairy* was the largest segment in terms of revenue and business segments EBITDA<sup>1</sup> providing for 49% and 47% respectively (41% and 27% in Q1 2012). The segment revenue grew 26% to EUR 35.2 million on a back of better volume sales, while segment EBITDA grew 64% from EUR 1.9 million to EUR 3 million, reflecting better product mix and economy of scale effect.

*Cheese & butter segment* contributed approximately 42% to the Group's total revenue and 48% to business segments EBITDA (51% and 68% respectively in Q1 2012). Segment revenue decreased by 14% to EUR 29.8 million, mainly on account of exports sales to Russia. Segment EBITDA declined by 33% resulting from higher input costs and lower utilization of cheese plants.

In *Ingredients and other products segment*, revenue increased by 23% to EUR 6.1 million, while segment's EBITDA grew 8% to EUR 0.4 million reflecting start of sales of dry milk products by Ostrowia and better prices.

### **Cost of sales and gross profit**

Cost of sales grew by EUR 4.2 million (8% y-o-y) to EUR 56.7 million, mainly due to higher raw milk prices and launch of Ostrowia operations. According to official statistics, raw milk prices were 7% and 4% y-o-y higher in Ukraine and Russia respectively.

As a result, the Group's gross profit was c.4% lower in Q1 2013 than in Q1 2012 (EUR 14.5 million and EUR 15 million respectively). The gross margin declined from 22.2% to 20.4%.

### **Operating profit and EBITDA**

Selling and distribution expenses grew 25% compared to Q1 2012, to EUR 6.9 million, reflecting high growth rates in WMP segment, and extensive marketing support of the Group's newly established operations in Poland.

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<sup>1</sup> Business segments EBITDA is calculated net of other segments EBITDA, namely EBITDA contribution of Milkiland N.V., the holding company of the Group.

The Group's administrative expenses increased by 40% on y-o-y basis, to EUR 8.5 million, reflecting addition of Milkiland EU to the Group, and team enhancement at Milkiland NV level aimed at the streamlining the Group's international business management. These expenses were essential to establish new operating entity in Poland, and are to be covered in next periods by additional revenues and profits derived from Milkiland EU.

Decline in the gross profit, as well as rising operating costs, contributed to decrease in the operating profit and EBITDA to, respectively, EUR 2.1 million (-40%) and EUR 6.0 million (-10%).

**Profit before tax and net profit**

The above factors contributed to a decrease in the profit before tax from c. EUR 2.0 million to c. EUR 1.2 million. Net profit declined to c. EUR 1.0 million.

**Trade and other receivables**

Trade and other receivables increased by EUR 3.2 million to EUR 51.4 million in the first 3 months of 2013, mainly due to the seasonal agricultural campaign.

## **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 2013 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 2013 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, 10 May 2013

**A. Yurkevych**

**O. Rozhko**

**O. Yurkevych**

**V. Rekov**

**F.J. Aherne**

**W. S. van Walt Meijer**

**G. Heerink**



**Milkiland N.V.**

**Condensed Consolidated Interim Financial Statements**

**For the three months ended 31 March 2013**

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**MILKILAND N.V.****Condensed consolidated interim statement of financial position****For the three months ended 31 March 2013**

(All amounts in euro thousands unless otherwise stated)

	Notes	31 March 2013 (unaudited)	31 December 2012 (audited)	31 March 2012 (unaudited)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	7	18,099	23,850	31,949
Trade and other receivables	8	51,409	48,236	33,456
Inventories	9	25,622	25,487	25,341
Current biological assets	13	6,116	5,420	3,315
Current income tax assets		193	204	887
Other taxes receivable	10	13,493	10,750	21,191
		<b>114,932</b>	<b>113,947</b>	<b>116,139</b>
<b>Non-Current Assets</b>				
Goodwill	11	3,526	3,485	3,245
Property, plant and equipment	12	198,221	189,129	153,730
Non-current biological assets	13	3,859	3,296	2,553
Other intangible assets	12	3,875	3,824	337
Deferred income tax assets		10,050	9,754	21,079
Other Non-current assets		-	1,006	-
		<b>219,531</b>	<b>210,494</b>	<b>180,944</b>
<b>TOTAL ASSETS</b>		<b>334,463</b>	<b>324,441</b>	<b>297,083</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Trade and other payables	14	17,750	15,120	14,541
Current income tax liabilities		67	534	496
Other taxes payable	15	2,337	1,570	1,622
Short-term loans and borrowings		57,636	50,526	46,791
		<b>77,790</b>	<b>67,750</b>	<b>63,450</b>
<b>Non-Current Liabilities</b>				
Loans and borrowings	16	41,996	46,427	23,198
Deferred income tax liability		30,802	30,715	43,325
Other non-current liabilities		844	864	1,823
		<b>73,642</b>	<b>78,006</b>	<b>68,346</b>
<b>Total liabilities</b>		<b>151,432</b>	<b>145,756</b>	<b>131,796</b>
<b>Equity attributable to owners of the Company</b>				
Share capital	17	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		53,516	53,228	56,970
Currency translation reserve		(5,896)	(7,441)	(10,568)
Retained earnings		76,799	74,702	60,962
		<b>176,231</b>	<b>172,301</b>	<b>159,176</b>
<b>Non-controlling interests</b>		<b>6,800</b>	<b>6,384</b>	<b>6,111</b>
<b>Total equity</b>		<b>183,031</b>	<b>178,685</b>	<b>165,287</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>334,463</b>	<b>324,441</b>	<b>297,083</b>

**MILKILAND N.V.****Condensed consolidated interim statement of comprehensive income****For the three months ended 31 March 2013**

(All amounts in euro thousands unless otherwise stated)

	Notes	2013 (unaudited)	2012 (unaudited)
Revenue	18	71,073	67,681
Change in fair value of biological assets		120	(228)
Cost of sales	19	(56,697)	(52,404)
<b>Gross Profit</b>		<b>14,496</b>	<b>15,049</b>
Selling and distribution expenses	20	(6,938)	(5,533)
Administration expenses	21	(8,492)	(6,046)
Other income/(expenses), net	22	3,003	(21)
<b>Operating Profit</b>		<b>2,069</b>	<b>3,449</b>
Finance income		1,165	848
Finance expenses		(2,401)	(2,060)
Foreign exchange gain/(loss), net		415	(266)
<b>Profit before tax</b>		<b>1,248</b>	<b>1,971</b>
Income tax	23	(268)	(106)
<b>Net profit for the year</b>		<b>980</b>	<b>1,865</b>
<b>Other comprehensive income/(loss)</b>			
Exchange differences on translating to presentation currency		3,366	(2,392)
<b>Total comprehensive income/(loss)</b>		<b>4,346</b>	<b>(527)</b>
<b>Profit attributable to:</b>			
Owners of the Company		719	1,751
Non-controlling interests		261	114
		<b>980</b>	<b>1,865</b>
<b>Total comprehensive income:</b>			
Owners of the Company		3,930	(683)
Non-controlling interests		416	156
		<b>4,346</b>	<b>(527)</b>
<b>Earnings per share</b>		<b>2.30</b>	<b>5.60</b>

**MILKILAND N.V.****Condensed consolidated interim statement of cash flows****For the three months ended 31 March 2013**

(All amounts in euro thousands unless otherwise stated)

	2013 (unaudited)	2012 (unaudited)
<b>Cash flows from operating activities:</b>		
<b>Profit before income tax</b>	<b>1,248</b>	<b>1,971</b>
<b>Adjustments for:</b>		
Depreciation and amortization	3,590	3,054
Change in provision and write off of trade and other accounts receivable	(1,363)	185
Change in provision and write off of unrealised VAT	242	227
Loss from write off, revaluation and disposal of non-current assets	180	138
Change in provision and write off inventories	105	140
Change in fair value of biological assets	(120)	228
Foreign exchange (gain)/loss	(415)	266
Finance income	(1,165)	(848)
Finance expenses	2,401	2,060
Write off of accounts payable	(20)	(23)
<b>Operating cash flow before movements in working capital</b>	<b>4,683</b>	<b>7,398</b>
Increase in trade and other accounts receivable	(1,045)	(3,044)
Decrease in inventories	495	8,970
Increase in biological assets	(873)	(277)
Increase/(decrease) in trade and other payables	2,623	(5,100)
(Increase)/decrease in other taxes receivable	(2,704)	602
Increase/(decrease) in other taxes payable	767	(559)
<b>Net cash provided by operations:</b>	<b>3,946</b>	<b>7,990</b>
Income taxes paid	(1,396)	(346)
Interest received	1,165	833
Interest paid	(2,241)	(1,990)
<b>Net cash provided by operating activities</b>	<b>1,474</b>	<b>6,487</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(7,755)	(446)
Proceeds from sale of property, plant and equipment	28	24
Acquisition of subsidiaries	-	(216)
<b>Net cash used in investing activities</b>	<b>(7,727)</b>	<b>(638)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	10,334	6,273
Repayment of borrowings	(10,541)	(33,670)
<b>Net cash used in financing activities</b>	<b>(207)</b>	<b>(27,397)</b>
<b>Net decrease in cash and equivalents</b>	<b>(6,460)</b>	<b>(21,548)</b>
<b>Cash and equivalents, beginning of the period</b>	<b>23,850</b>	<b>53,410</b>
Effect of foreign exchange rates on cash and cash equivalents	709	87
<b>Cash and equivalents, end of the period</b>	<b>18,099</b>	<b>31,949</b>

**MILKILAND N.V.****Condensed consolidated interim statement of changes in equity****For the three months ended 31 March 2013**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							Total equity (unaudited)
	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)	
<b>Balance at 1 January 2012</b>	<b>3,125</b>	<b>48,687</b>	<b>(8,134)</b>	<b>58,320</b>	<b>57,861</b>	<b>159,859</b>	<b>5,955</b>	<b>165,814</b>
Profit for the period	-	-	-	-	1,751	1,751	114	1,865
Other comprehensive income, net of tax effect	-	-	(2,434)	-	-	(2,434)	42	(2,392)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(2,434)</b>	<b>-</b>	<b>1,751</b>	<b>(683)</b>	<b>156</b>	<b>(527)</b>
Realised revaluation reserve, net of income tax	-	-	-	(1,350)	1,350	-	-	-
<b>Balance at 31 March 2012</b>	<b>3,125</b>	<b>48,687</b>	<b>(10,568)</b>	<b>56,970</b>	<b>60,962</b>	<b>159,176</b>	<b>6,111</b>	<b>165,287</b>
<b>Balance at 1 January 2013</b>	<b>3,125</b>	<b>48,687</b>	<b>(7,441)</b>	<b>53,228</b>	<b>74,702</b>	<b>172,301</b>	<b>6,384</b>	<b>178,685</b>
Profit for the period	-	-	-	-	719	719	261	980
Other comprehensive income, net of tax effect	-	-	1,545	1,666	-	3,211	155	3,366
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1,545</b>	<b>1,666</b>	<b>719</b>	<b>3,930</b>	<b>416</b>	<b>4,346</b>
Realised revaluation reserve, net of income tax	-	-	-	(1,378)	1,378	-	-	-
<b>Balance at 31 March 2013</b>	<b>3,125</b>	<b>48,687</b>	<b>(5,896)</b>	<b>53,516</b>	<b>76,799</b>	<b>176,231</b>	<b>6,800</b>	<b>183,031</b>

**MILKILAND N.V.****Condensed consolidated interim statement of changes in equity****For the three months ended 31 March 2013**

(All amounts in euro thousands unless otherwise stated)

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**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 2013 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 10 May 2013.

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 St., 02090, Kyiv, Ukraine.

As at 31 March 2013, the Company is owned 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, Russia and Poland, able to process up to 1,300 thousand tonnes of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

**MILKILAND N.V.****Condensed consolidated interim statement of changes in equity****For the three months ended 31 March 2013**

(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 incorporation	Effective share of ownership		
		31 March 2013	31 December 2012	31 March 2012
MLK Finance Limited	Cyprus	100.0%	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%	-
Milkiland Corporation	Panama	100.0%	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%	-
Ostrowia 10 sp. z.o.o	Poland	100.0%	100.0%	-
JSC Ostankino Dairy Combine	Russia	95,9%	95,9%	95,3%
LLC Milkiland RU	Russia	100.0%	100.0%	-
LLC Kursk-Moloko	Russia	100.0%	-	-
DE Milkiland Ukraine	Ukraine	100.0%	100.0%	100.0%
DE Aromat	Ukraine	100.0%	100.0%	100.0%
PE Prometey	Ukraine	100.0%	100.0%	100.0%
PE Ros	Ukraine	100.0%	100.0%	100.0%
LLC Malka-trans	Ukraine	100.0%	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	100.0%	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	100.0%	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%	76,0%
PrJSC Gorodnia Milk Plant	Ukraine	72,3%	72,3%	72,3%
LLC Agrosvit	Ukraine	100.0%	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	100.0%	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	100.0%	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%	100.0%
LLC Moloko Polissia	Ukraine	100.0%	100.0%	100.0%
PrJSC Transportnyk	Ukraine	70,3%	70,3%	70,3%
LLC Milkiland Agro	Ukraine	100.0%	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%	100.0%
PJSC Iskra	Ukraine	68,1%	68,1%	68,1%
DE Agrolight	Ukraine	100.0%	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	100.0%	100.0%	100.0%
LLC Bachmachregionpostach	Ukraine	100.0%	100.0%	100.0%
LLC Avtek Rent Service	Ukraine	100.0%	100.0%	100.0%
AF Konotopska	Ukraine	100.0%	100.0%	100.0%
LLC Batkivschyna	Ukraine	100.0%	100.0%	100.0%
PE Agro PersheTravnya	Ukraine	100.0%	100.0%	100.0%
ALLC Nadiya	Ukraine	100.0%	100.0%	100.0%
LLC Zemledar 2020	Ukraine	100.0%	100.0%	100.0%
PAE Dovzhenka	Ukraine	100.0%	100.0%	100.0%
LLC Feskivske	Ukraine	100.0%	100.0%	-

During the quarter ended 31 March 2013, the Group finalized registration of new subsidiary LLC Kursk-Moloko in Russia.

## 2 Summary of significant accounting policies

**Basis of preparation and statement of compliance.** This condensed consolidated interim financial information for the three months ended 31 March 2013 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 2012, which have been prepared in accordance with IFRSs.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2012.

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

### **Adoption of new or revised standards and interpretations.**

New and amended standards adopted by the Group. There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 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 2013, 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 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 cyclical and seasonal variations.

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk. In 2012 the in-house milk production covered c.4% of milk intake in Ukraine.

**MILKILAND N.V.****Condensed consolidated interim statement of changes in equity****For the three months ended 31 March 2013**

(All amounts in euro thousands unless otherwise stated)

**2 Summary of significant accounting policies (continued)**

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

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

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

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

	US dollar	UAH	RUR	PLN
As at 31 March 2013	1.2805	10.2350	39.8023	4.1774
Average for three months ended 31 March 2013	1.3198	10.5495	40.1908	4.1556
As at 31 December 2012	1.3194	10.5460	40.2286	4.0882
As at 31 March 2012	1.3356	10.6670	39.1707	4.1616
Average for three months ended 31 March 2012	1.3109	10.4714	39.6784	4.2339

**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 balance sheet 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:

### 3 Critical accounting estimates and judgments (continued)

**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.

**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.

**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.

### 4 Business combinations

The Group acquired ALLC Nadiya and PE Agro Pershe Travnya in the end of 2011 and PAE Dovzhenka during the three months ended 31 March 2012. The fair value of the net assets obtained has not been determined as at 31 December 2011 and 31 March 2012 due to the short time period before the period-end close. As a result provisional goodwill at the amount of EUR 2,181 thousand was recognized and disclosed in the financial statement prepared as of 31 December 2011 and EUR 2,337 as of 31 March 2012. Consequently, the fair value of net assets as at the day of acquisition was subsequently determined in 2012 by the independent appraisal agency and respective comparative amounts were revised for the year ended 31 December 2011 and three months ended 31 March 2012. As a result the goodwill as of 31 December 2011 was decreased by EUR 1,369 thousand to EUR 3,092 thousand, and as of 31 March 2012 by EUR 1,298 to EUR 3,245 predominantly due to revaluation of property, plant and equipment. For more information, refer to note 11.

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(All amounts in euro thousands unless otherwise stated)

**5 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.

Ukrainian and Russian 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* - comprising the production and distribution of dry milk, agricultural and other products.

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:

	2013				2012		
	Russia	Ukraine	Poland	Total	Russia	Ukraine	Total
Total segment revenue	32,487	39,550	2,022	74,059	28,210	46,977	75,187
Inter-segment revenue	-	(2,986)	-	(2,986)	-	(7,506)	(7,506)
Revenue from external customers	32,487	36,564	2,022	71,073	28,210	39,471	67,681
<b>EBITDA</b>	<b>1,990</b>	<b>4,949</b>	<b>(264)</b>	<b>6,675</b>	<b>1,743</b>	<b>5,224</b>	<b>6,967</b>
EBITDA margin	6%	14%	(13%)	9%	6%	13%	10%
Depreciation and amortisation	820	2,250	517	3,587	760	2,294	3,054

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**7 Segment information (continued)**

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 three months ended 31 March is as follows:

	<b>2013</b>				<b>2012</b>			
	<b>Cheese &amp; butter</b>	<b>Whole-milk products</b>	<b>Ingredients</b>	<b>Total</b>	<b>Cheese &amp; butter</b>	<b>Whole-milk products</b>	<b>Ingredients</b>	<b>Total</b>
Total segment revenue	32,815	35,163	6,081	74,059	39,702	27,969	7,516	75,187
Inter-segment revenue	(2,986)	-	-	(2,986)	(4,930)	-	(2,576)	(7,506)
Revenue from external customers	29,829	35,163	6,081	71,073	34,772	27,969	4,940	67,681
<b>EBITDA</b>	<b>3,173</b>	<b>3,140</b>	<b>362</b>	<b>6,675</b>	<b>4,722</b>	<b>1,909</b>	<b>336</b>	<b>6,967</b>
EBITDA margin	11%	9%	6%	9%	14%	7%	7%	10%
Depreciation and amortisation	1,413	1,470	704	3,587	1,383	1,373	298	3,054

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

	<b>2013</b>	<b>2012</b>
<b>EBITDA</b>	<b>6,675</b>	<b>6,967</b>
Other segments EBITDA	(682)	(326)
<b>Total segments</b>	<b>5,993</b>	<b>6,641</b>
Depreciation and amortisation	(3,590)	(3,054)
Non-recurring items	(334)	(138)
Finance expenses	(2,401)	(2,060)
Finance income	1,165	848
Foreign exchange gain/(loss), net	415	(266)
<b>Profit before tax</b>	<b>1,248</b>	<b>1,971</b>

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(All amounts in euro thousands unless otherwise stated)

**6 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 (revised 2003) "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:

<i>Entities under common control:</i>	2013	2012
Revenue	4,982	4,478

The outstanding balances due from related parties were as follows:

<i>Entities under common control:</i>	31 March 2013	31 December 2012	31 March 2012
Trade accounts receivable	7,913	6,557	1,990
Other financial assets	2,774	1,694	-
Other accounts receivable	-	-	462

As at 31 March 2013 the Group extended prepayments for farming equipment in amount EUR 7,814 thousand (31 December 2012: EUR 7,558 thousand; 31 March 2012: nil), and for agricultural seeds and crop protection products in amount EUR 4,122 thousand (31 December 2012: EUR 4,000 thousand; 31 March 2012: nil), through agency contracts with related parties under common control. Delivery of equipment is expected before October 2013, while delivery of seeds and crop protection is scheduled before June 2013. All above contracts were secured by personal guarantee of the Company's controlling shareholder.

**Key management compensation**

Key management includes members of the Board of directors. The short-term employee benefits for the three months ended 31 March 2013 paid or payable to key management for employee services is EUR 353 thousand (2012: EUR 347 thousand).

**7 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 2013	31 December 2012	31 March 2012
Short term deposits	7,420	8,888	26,281
Cash in bank and cash on hand	10,679	14,962	5,668
<b>Total cash and cash equivalents</b>	<b>18,099</b>	<b>23,850</b>	<b>31,949</b>

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(All amounts in euro thousands unless otherwise stated)

**8 Trade and other receivables**

	31 March 2013	31 December 2012	31 March 2012
Trade accounts receivable	35,272	36,919	28,719
Other financial assets	2,849	2,785	283
Allowance for doubtful debts	(1,732)	(2,757)	(2,065)
<b>Total trade accounts receivable</b>	<b>36,389</b>	<b>36,947</b>	<b>26,937</b>
<b>Total financial assets within trade and other receivables</b>	<b>36,389</b>	<b>36,947</b>	<b>26,937</b>
Advances issued	13,989	10,346	4,526
Other receivables	2,671	2,827	5,247
Allowance for doubtful debts	(1,640)	(1,884)	(3,254)
<b>Total trade and other accounts receivable</b>	<b>51,409</b>	<b>48,236</b>	<b>33,456</b>

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.

**9 Inventories**

	31 March 2013	31 December 2012	31 March 2012
Raw and other materials	8,880	8,527	7,743
Finished goods and work in progress	14,781	13,383	17,309
Agriculture produce	1,961	3,577	289
<b>Total inventories</b>	<b>25,622</b>	<b>25,487</b>	<b>25,341</b>

**10 Other taxes receivable**

	31 March 2013	31 December 2012	31 March 2012
VAT recoverable	12,884	10,560	21,094
Payroll related taxes	514	154	56
Other prepaid taxes	95	36	41
<b>Total other taxes receivable</b>	<b>13,493</b>	<b>10,750</b>	<b>21,191</b>

VAT receivable as at 31 March 2013 is shown net of provision at the amount of EUR 2,035 thousand (31 December 2012: EUR 2,018 thousand; 31 March 2012: EUR 624 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 35% (31 December 2012: 35%; 31 March 2012: 28%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

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(All amounts in euro thousands unless otherwise stated)

**11 Goodwill**

	<u>2013</u>	<u>2012</u>
Balance at 1 January	3,485	3,092
Acquisitions	-	227
Foreign currency translation	41	(74)
<b>Balance at 31 March</b>	<u><b>3,526</b></u>	<u><b>3,245</b></u>

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.

As the Group performed reassessment of the Goodwill of the purchased entities, comparative amount of Goodwill as at 1 January 2012 and 31 March 2012 were decreased on EUR 1,369 and EUR 1,298 respectively. For more information, refer to note 4 for details.

**12 Property, plant and equipment and intangible assets**

During three months ended 31 March 2013 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 7,755 thousand (2012: EUR 446 thousand), which comprised mainly investments to agricultural business of the Group in Ukraine and production assets of JSC "Syrodel" in Rylsk city of Kursk region (Russian Federation).

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**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.

As at 31 March 2013, 2012 and 31 December 2012 biological assets comprise the following groups:

	31 March 2013		31 December 2012		31 March 2012	
<b>Current biological assets of animal breeding</b>	Units	Amount	Units	Amount	Units	Amount
Cattle	4,383	3,591	4,334	3,455	3,533	1,862
Other livestock	-	500	-	485	-	285
<b>Total biological assets of animal breeding</b>	<b>4,383</b>	<b>4,091</b>	<b>4,334</b>	<b>3,940</b>	<b>3,533</b>	<b>2,147</b>
<b>Current biological assets of plant growing</b>	Hectares	Amount	Hectares	Amount	Hectares	Amount
Wheat	3,218	892	3,115	777	3,406	1,018
Barley	1,259	138	1,259	112	802	150
Other	-	995	-	591	-	-
<b>Total biological assets of plant growing</b>	<b>4,477</b>	<b>2,025</b>	<b>4,374</b>	<b>1,480</b>	<b>4,208</b>	<b>1,168</b>
<b>Total current biological assets</b>		<b>6,116</b>		<b>5,420</b>		<b>3,315</b>
<b>Non-current biological assets</b>	Units	Amount	Units	Amount	Units	Amount
Cattle	3,778	3,859	3,354	3,296	2,931	2,512
Other livestock	-	-	-	-	-	41
<b>Total non-current biological assets</b>	<b>3,778</b>	<b>3,859</b>	<b>3,354</b>	<b>3,296</b>	<b>2,931</b>	<b>2,553</b>

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(All amounts in euro thousands unless otherwise stated)

**14 Trade and other payables**

	<b>31 March 2013</b>	<b>31 December 2012</b>	<b>31 March 2012</b>
Trade payables	11,139	8,693	9,138
Accounts payable for fixed assets	93	32	167
Interest payable	211	188	188
Other financial payables	373	393	-
<b>Total financial liabilities within trade and other payable</b>	<b>11,816</b>	<b>9,306</b>	<b>9,493</b>
Wages and salaries payable	1,991	1,622	1,578
Accruals for bonuses	41	39	180
Advances received	1,622	1,223	1,345
Other accounts payable	464	1,065	509
Accruals for employees' unused vacations	1,816	1,865	1,436
<b>Total trade and other payables</b>	<b>17,750</b>	<b>15,120</b>	<b>14,541</b>

Financial liabilities are normally settled within 60-days period.

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

**15 Other taxes payable**

	<b>31 March 2013</b>	<b>31 December 2012</b>	<b>31 March 2012</b>
VAT payable	806	615	739
Payroll related taxes	1,060	694	700
Other taxes payable	471	261	183
<b>Total other taxes payable</b>	<b>2,337</b>	<b>1,570</b>	<b>1,622</b>

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**16 Loans and borrowings**

	31 March 2013	31 December 2012	31 March 2012
<b>Current</b>			
Interest bearing loans due to banks	57,380	50,232	46,413
Finance leases	256	294	378
<b>Total current borrowings</b>	<b>57,636</b>	<b>50,526</b>	<b>46,791</b>
<b>Non-current</b>			
Interest bearing loans due to banks	41,902	46,282	22,870
Finance leases	94	145	328
<b>Total non-current borrowings</b>	<b>41,996</b>	<b>46,427</b>	<b>23,198</b>
<b>Total borrowings</b>	<b>99,632</b>	<b>96,953</b>	<b>69,989</b>

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

	2013	2012
<b>Balance at 1 January</b>	<b>96,953</b>	<b>95,321</b>
Obtained new loans and borrowings	10,334	7,435
Repaid loans and borrowings	(10,541)	(29,092)
Foreign exchange loss/(gain)	2,886	(3,675)
<b>Balance at 31 March</b>	<b>99,632</b>	<b>69,989</b>

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 31 March 2013 and 31 December 2012 were as follows:

	31 March 2013				31 December 2012			
	USD	UAH	RUR	Total	USD	UAH	RUR	Total
<b>12 months or less</b>								
Outstanding balance, thousand EUR	30,183	256	27,197	<b>57,636</b>	26,121	294	24,111	<b>50,526</b>
Average interest rate, %	10.87	12.3	10.24	<b>10.58</b>	10.83	12.30	10.23	<b>10.55</b>
<b>1-5 years</b>								
Outstanding balance, thousand EUR	41,902	94	-	<b>41,996</b>	46,287	140	-	<b>46,427</b>
Average interest rate, %	10.87	12.3	-	<b>10.87</b>	10.83	12.30	-	<b>10.83</b>

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(All amounts in euro thousands unless otherwise stated)

**17 Share capital**

Share capital as at 31 March is as follows:

	2013		2012	
	Number of shares	EUR 000	Number of shares	EUR 000
<b>Authorised</b>				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
<b>Issued and fully paid up</b>				
<i>Ordinary shares of 10c each</i>				
At 1 January	31,250,000	3,125	31,250,000	3,125
<b>At 31 March</b>	<b>31,250,000</b>	<b>3,125</b>	<b>31,250,000</b>	<b>3,125</b>

**18 Revenue**

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

	2013	2012
Cheese & Butter	29,829	34,772
Whole-milk products	35,163	27,969
Ingredients	6,081	4,940
<b>Total revenue</b>	<b>71,073</b>	<b>67,681</b>

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

	2013	2012
Russia	44,145	45,429
Ukraine	23,730	20,546
Poland	2,022	-
Other	1,176	1,706
<b>Total revenue</b>	<b>71,073</b>	<b>67,681</b>

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(All amounts in euro thousands unless otherwise stated)

**19 Cost of sales**

	<b>2013</b>	<b>2012</b>
Raw and other materials	41,791	34,181
Wages and salaries	3,314	2,772
Depreciation	2,958	2,614
Transportation costs	2,307	2,578
Gas	2,196	2,277
Electricity	1,520	1,064
Social insurance contributions	1,140	870
Repairs of property, plant and equipment	847	679
Water	228	210
Other	1,055	646
Changes in finished goods and work in progress	(659)	4,513
<b>Total cost of sales</b>	<b>56,697</b>	<b>52,404</b>

**20 Selling and distribution expenses**

	<b>2013</b>	<b>2012</b>
Transportation costs	2,593	2,488
Security and other services	1,390	792
Marketing and advertising	490	271
Wages and salaries	1,543	1,249
Social insurance contributions	512	397
Licence fees	71	74
Rental costs	80	51
Depreciation and amortisation	58	47
Other	201	164
<b>Total selling expenses</b>	<b>6,938</b>	<b>5,533</b>

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**21 General and administrative expenses**

	<b>2013</b>	<b>2012</b>
Wages and salaries	3,358	2,434
Social insurance contributions	724	660
Taxes and other charges	450	359
Representative charges	94	377
Other utilities	186	232
Bank charges	870	229
Repairs and maintenance	237	79
Depreciation and amortisation	522	393
Consulting fees	1,065	506
Security and other services	135	143
Transportation costs	146	155
Property insurance	166	167
Rental costs	113	54
Communication	91	72
Office supplies	43	39
Other	292	147
<b>Total administrative expenses</b>	<b>8,492</b>	<b>6,046</b>

**22 Other (expenses)/income, net**

	<b>2013</b>	<b>2012</b>
Government grants recognised as income	2,035	624
Gain from write off of accounts payable	20	23
Change in provision and write off of trade and other accounts receivable	1,363	(185)
Other income, net	137	76
Loss from disposal of non-current assets	(180)	(138)
Loss from disposal of inventories	(82)	(140)
Penalties	(25)	(54)
Loss from write off of inventories	(23)	-
Change in provision and write off of VAT receivable	(242)	(227)
<b>Total other income/(expenses), net</b>	<b>3,003</b>	<b>(21)</b>

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(All amounts in euro thousands unless otherwise stated)

**23 Income tax**

	<b>2013</b>	<b>2012</b>
Current income tax	928	784
Deferred income tax	(660)	(678)
<b>Total income tax</b>	<b>268</b>	<b>106</b>

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2013 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 19% (2012: 21%), Russian profit tax was levied at the rate of 20% (2012: 20%), Poland profit tax was levied at the rate of 19% (2012: 19%). In 2013 the tax rate for Panama operations was 0% (2012: 0%) on worldwide income.

**24 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.

**Insurance policies**

The Group insures all significant property. As at 31 March 2013 and 31 March 2012, 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.

**Compliance with covenants**

The Group is subject to certain covenants related to its borrowing. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 March 2013 and 31 March 2012.

**25 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 2013 and 2012 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:

- 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.

The Group has met external capital disclosures per 31 March 2013.

**26 Earnings per share**

	<u>2013</u>	<u>2012</u>
<i>Numerator</i>		
Earnings used in basic and diluted EPS	<u>719</u>	<u>1,751</u>
<i>Denominator, in thousand</i>		
Weighted average number of shares used in basic and diluted EPS	<u>31,250</u>	<u>31,250</u>