Report of the Board of Directors on operations in the first half of 2011

Contents

Overview of Operations in H1 2011 and Outlook for the Year 2011

Strategy and Operations: Heading to Future Success

The Group is actively investigating the dairy markets in Ukraine, Russia, Belarus, Poland, and Bulgaria in a constant search for attractive M&A targets. We believe that the current market situation in Russia and Ukraine will push the dairy industry consolidation in the nearest future. Milkiland plans to capitalize on this trend in order to expand its business. For more information please refer to section *Dairy Markets*.

In the first six months of 2011, the Group was elaborating the modernization plans of its key production facilities in Russia (Ostankino diary combine – "Ostankino"), as well as in Ukraine (Okhtyrka cheese plant).

In particular, we involved the reputable European design bureau to prepare the action plan of deep modernization of Ostankino. It should be finished until September 2011 and includes new buildings design, restructuring of the technological chain, which will lead to tripling of the daily milk processing volumes of Ostankino to 600 tons.

We also elaborated a plan for modernization of Okhtyrka cheese plant to increase its production capacity by 7,000 tons of cheese per annum (about 16% of current cheese production capacities of the Group). It is planned to be implemented by the beginning of 2012 year. The additional amounts of cheese will be sold for export, primarily to Russia, Kazakhstan and Moldova.

We believe that vertical integration of our business is one of the important strategic priorities and drivers for the improvement of our operational efficiency. Thus we pay attention to the development of our Agricultural Segment, including through the expansion of our land bank. As of the date of this report, we have acquired one and are in the process of acquisition of additional agricultural companies in the Chernihiv Oblast. For more information regarding this acquisition please refer to section *Material Factors and Events*.

In mid-August, agricompanies of Milkiland Group successfully finished harvesting of early grains and gathered 11,190 tons of these crops, which is almost twice more than in 2010. High productivity contributed to this success, since Milkiland's average crop yields are well above the Ukrainian and regional averages. The crops harvested are enough to increase our cattle stock by 30-50% this year and form a significant raw milk business segment in 2012. In order to ensure preservation of the crops harvested, a grain drying facility with drying capacity of 356 tons per day has been built and launched.

Sustainable raw milk supply is the key to Milkiland's productivity and cost-efficiency. In this area, we started building of two modern cattle farms equipped with the state-of-the-art milking and handling technology. The overall capacity of these farms is 8,000 cows. In two or three years after launch, these farms will supply up to 60,000 tons of high-quality milk per year, which is approximately 15% of our current needs in Ukraine.

At existing farms, we have increased the cattle headcount to 2,000 heads. Milkiland's agicompanies maintain a positive pace in the in-house milk production. The gross output of this product in the first six months of 2011 more than doubled year-on-year to 4,200 tons.

In addition to the in-house milk production, we actively support creation of agricultural cooperatives in the regions of Ukraine where we source our raw milk. These cooperatives are aimed to get individual farmers under one roof and establish long term relations that would benefit both Milkiland and its suppliers. Ukrainian cattle farming is far less efficient than its EU counterparts, with milk quality and per cow productivity being the major problems.

Using the best European, namely Dutch, expertise in raw milk supplies, we are building our road to better productivity and quality of milk. Supporting agricultural cooperatives, we secure sources of steady and smooth milk supply for our dairies in Ukraine. The purpose of cooperatives is to provide service to farmers in the areas of cow milking, breeding and veterinary.

Also, cooperatives are a good platform to introduce best farming practices among individual farmers. For the date of this report, we have supported the creation of 16 cooperatives in 10 regions of Ukraine where our production facilities are situated. These cooperatives with almost 6,000 individual members lease approximately 7,500 cows and already provide for more than 10% of Milkiland's household milk collection in Ukraine.

Dairy Markets

The first half of 2011 was a period when dairy markets in Russia and Ukraine were trying to find a new balance after a rather difficult year 2010. Changes in the Ukrainian tax system introduced starting from January 1, 2011 also added for this imbalance.

First of all, the regime of Ukrainian subsidies to milk farmers contributed to higher production costs for dairy producers. Since 1998 until 31 December 2010, dairy producers were subject to a special VAT regime, as part of state subsidy system to raw milk producers. Ukrainian dairy producers, including the Group's milk processing facilities, were obliged to use the VAT that they charge on their dairy products solely to pay subsidies to farmers instead of remitting such amounts to the state budget.

As a result the dairy producers from the beginning of the year 2011 lost the possibility partly to cover the raw milk price by government subsidy and were pushed to pay the full price to milk producers by their own funds. Despite the fact that raw milk prices started to fall from their highest level of end-2010 to the level of the first half of 2010, this change to the system of government subsidies contributed to an immediate producer margin squeeze. For more information on milk subsidies in Ukraine, refer to section *Material Factors and Events*.

At the same time, low economic sentiment in Ukraine led to a temporary weakness in customer demand resulting in a downward pressure on final product prices in spring 2011. As a response to lower demand from local Ukrainian consumers, Milkiland increased its cheese exports to Russia where dairy prices are traditionally higher. A downward correction in Ukrainian dairy prices spread until mid-June.

By late June, prices for cheese and other dairy products started to grow again, as raw milk again priced higher y-o-y on a back of milk production decline. Despite raw milk prices stopped their rise in July, cheese prices gained 15% compared to June. Ukrainian industry analysts forecast a further rise in cheese prices by c. 5% per month until November, while consumer economic sentiment improves, and dairy producers will be trying to compensate for narrow margins of the first half of the year.

Unlike in Ukraine, in Russia dairy prices stayed 20-30% higher y-o-y, since the 2010 draught somewhat delayed the projected milk production increase. In the first half of 2011, Russian raw milk production fell by c. 2% y-o-y due to 2010 summer draught, in contrary to an expected rise. Russian market sharply reacted to this minor negative change, with the average raw milk price staying high at least until May. In May and June, the situation somewhat eased, however, prices ending up 20% higher y-o-y. With high final product prices, demand was stagnating in the first half of the year. As feed supplies replenish, raw milk prices in Russia are expected to go down from their highs of early 2011, and so will dairy product prices. Industry experts expect cheese and butter production and imports to grow as prices moderate.

While high raw milk prices in both countries contributed to low dairy producer margins, a number of local producers, including leading Russian dairies Vamin and Danone's Unimilk, reported lower dairy sales in terms of either volume or revenue, while PepsiCo's Wimm-Bill-Dann reported moderate growth at a single-digit rate. We believe this situation to be favorable for Milkiland to find a good acquisition target among those dairies failing to compete on a temporary tight market.

Milkiland's Financial Performance and Financial Position

The Table below provides selected financial data as of and for the six months ended 30 June 2011 and 2010 in thousands Euro.

Selected financial data

	6m 2011	6m 2010
I. Revenues	127,490	121,094
II. Adjusted EBITDA	18,711	21,926
III. Operating profit	10,908	17,352
IV. Profit (loss) before tax	7,020	12,343
V. Net profit (loss)	6,689	11,707
VI. Cash flows provided by (used in) operating activities	10,225	6374
VII. Cash flows used in investing activities	(4,250)	(2,514)
VIII. Cash flows (used in) provided by financing activities	(14,875)	(3,697)
IX. Total net cash flow	(11,291)	1,335
X. Total assets	250,747	238,901
XI. Current liabilities	54,460	66,379
XII. Non-current liabilities	72,217	103,319
XIII. Share capital	3,125	2,500
XIV. Total equity	124,070	69,203
XV. Weighted average number of shares	31,250,000	25,000,000
XVI. Profit (loss) per ordinary share, EUR cents	20.79	32.44

Financial Performance

Summary statement of comprehensive income, '000 EUR

EUR ths	**6m 2011**	**6m 2010**
Revenue	127,490	121,094
Cost of sales	(91,667)	(74,986)
Gross profit	**37,179**	**46,108**
Operating income (expense), net	(26,271)	(28,756)
Operating profit	**10,908**	**17,352**
Net finance expense and other non-operating income (expense)	(3,888)	(5,009)
Profit (loss) before tax	7,020	12,343
Income tax (expense) benefit	(331)	(636)
Net profit (loss)	**6,689**	**11,707**
Other comprehensive income (loss)	(5,279)	4,630,
Total comprehensive income	**1,410**	**16,337**
Net profit (loss) attributable to equity holders of the parent company	**6,496**	**8,109**
Weighted average common shares outstanding, in thousand	31,250	25,000
Earnings per share, basic and diluted (EUR)	**20.79**	**32.44**

Revenue

In the first half of 2011, the Group's revenue grew c. 5% y-o-y to EUR 127.5 million, mainly on the back of better pricing and better cheese sales in Russia, which compensated for a decline in Ostankino's WMP sales. Opposite to this, in Ukraine more whole milk products were sold thus contributing to stability of sales breakdown. In the total revenue, cheese and butter sales accounted for 53%, whole milk products for 39%, same as in the first half of 2010.

Breakdown of the Group's consolidated revenue by product in H1 2011 and H1 2010

	2011		**2010**		**2011 vs. 2010**	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	67,677	53.1%	63,736	52.6%	3,941	6.2%
Whole milk products	49,402	38.8%	47,866	39.5%	1,536	3.2%
Ingredients and other	10,410	8.1%	9,491	7.9%	919	9.7%
Total	**127,489**	**100.0%**	**121,093**	**100.0%**	**6,396**	**5.3%**

Cost of sales and Gross profit

Cost of sales grew 22% due to a rise in the average effective raw milk price, especially, in Russia, while in Ukraine a change in the government subsidy system to dairy farmers contributed to higher costs paid by dairy producers. For more information on the above changes and raw milk prices, refer to sections *Material Factors and Events during the Reporting Period* and *Dairy Markets*.

As a result, raw material costs increased by 28% and the share of raw materials in the total consolidated revenue grew from 49% to 59%. High fuel prices in Ukraine also contributed to a 16% rise in transportation costs.

Breakdown of the Group's cost of sales in H1 2011-2010, '000 EUR and %

	2011		2010	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	75,128	58.93%	58,857	48.60%
Wages and salaries	4,033	3.16%	3,873	3.20%
Depreciation	4,025	3.16%	3,885	3.21%
Transportation costs	4,204	3.30%	3,610	2.98%
Gas	3,380	2.65%	2,786	2.30%
Other	897	0.70%	1,975	1.63%
Total	**91,667**	**71.90%**	**74,986**	**61.92%**

Since agricultural operations became more material for Milkiland's business, the Group's management made a decision to revaluate current biological assets in plant growing to their fair value, in order to give a more clear presentation of the Group's assets. Expected high crops productivity resulted in a positive change in the fair value of current biological assets amounting to EUR 1,356 thousand. Crop yields achieved during the harvesting campaign in July and August proved these expectations to be realistic (refer to section *Strategy and Operations: Heading to the Future Success*).

The Group's gross profit decreased by 19% to EUR 37,179 thousand, and the gross margin squeezed from 38% to 29% in the first half of 2011.

Profit from operations and EBITDA

A significant pressure put by rising raw milk and energy costs on the gross margin resulted in a decrease in the Group's EBITDA by 15% to EUR 18,711 thousand, EBITDA margin constituted 14.7% in H1 2011 vs. 18.1% in H1 2010.

Selling and distribution expense grew insignificantly, as the sales structure in terms of volumes changed in favour of more value-added products and less whole milk products were sold.

Administrative expenses grew 30% to EUR 17,054 thousand on the back of the major changes in the Group's management. The composition of the Board of Directors was changed after Milkiland N.V. went public in December 2010.

New highly skilled professionals with international experience were hired to implement best practice strategic management, ensuring long term vision, stringent risk management and transparency for investors. As a result of the rotation in the Board of Directors, the previous Group CEO received an enhanced bonus entitlement for 2010 results. Accordingly, the Group has recognized an additional one-off expense of EUR 1,861 thousand for the six months ended 30 June 2011. Without this non-recurring item, administrative expense constituted EUR 15,193 thousand.

Other operation income was EUR 214 thousand in H1 2011 vs. an operation expense of EUR 5,960 thousand, mainly due to a significant decrease in other operating expenses such as change in provisions and write offs in VAT receivable.

Profit before tax and Net profit

In the first half of 2011, the Group continued repaying of the most expensive debt. 40% y-o-y decreases in total debt, including 21% reduce in the short-term loans and borrowings and 54% reduce in long-term loans and borrowings, contributed to a significant decrease in the finance expense (by 38% y-o-y to EUR 4,245 thousand). However, the positive impact of this cost cutting was partially offset by a foreign exchange loss of EUR 1,216 thousand.

As a result of the above factors, net profit fell 43% to EUR 6,689 thousand. Net margin constituted 5.2% vs. 9.7% in the first half of 2010.

Financial Position

Summary balance sheet, '000 EUR

EUR ths	June 30, 2011	December 31, 2010	June 30, 2010
Cash and cash equivalents	26,466	37,757	8,010
Trade and other receivables	22,000	22,170	21,840
Inventories	28,088	25,665	27,094
Other current assets	20,024	21,279	23,624
Total current assets	***100,998***	***108,372***	***80,568***
PPE	117,573	125,650	136,115
Deferred income tax assets	28,163	30,503	19,607
Other non-current assets	2,827	2,680	2,611
Total non-current assets	***149,749***	***159,562***	***158,333***
Total assets	**250,747**	**267,934**	**238,901**
Trade and other payables	17,874	15,529	20,390
Short-term loans and borrowings	34,742	43,764	44,148
Other current liabilities	1,844	1,376	1,841
Total current liabilities	***54,460***	***60,669***	***66,379***
Loans and borrowings	27,490	36,072	59,524
Deferred income tax liability	44,223	47,761	43,274
Other non-current liabilities	504	454	521
Total non-current liabilities	***72,217***	***84,287***	***103,319***
Total liabilities	**126,677**	**144,956**	**169,698**
Share capital	3,125	3,125	2,500
Revaluation and other reserves	64,835	71,281	23,831
Retained earnings	50,287	42,441	29,598
Total equity attributable to equity holders of the parent company	***118,247***	***116,847***	***55,929***
Non-controlling interests	5,823	6,131	13,274
Total equity	**124,070**	**122,978**	**69,203**
Total liabilities and equity	**250,747**	**267,934**	**238,901**

Assets

Current assets grew by 25% from EUR 80,568 thousand as of June 30, 2010 to EUR 100,998 thousand as of June 30, 2011, mainly due to more than tripled cash and cash equivalents after the Milkiland N.V. IPO at Warsaw Stock Exchange in December 2010.

Since the Group successfully develops its agricultural business, and value of biological assets becomes material, the Group's management also decided to change the presentation of the current and non-current biological assets and reclassified them as separate line items. For more details on the effect of such reclassification on the balance sheet, refer to Note 5 to the Condensed Consolidated Interim Financial Statements for the six months ended June 30, 2011.

Property, plant and equipment declined by 14% due to several reasons:

1. Most of our PPE is located in Ukraine, where the functional currency of our subsidiaries is the Ukrainian Hryvnia. Ukrainian Hryvnia depreciated c.19% since June 30, 2010 (9.70268 UAH/EUR) until June 30, 2011 (11.52237 UAH/EUR) resulting in a corresponding depreciation of the non-current assets accounted for in this currency.
2. In line with its policy of streamlining of the product portfolio and focus on strategically attractive market segments, in April 2011, Milkiland Group divested its non-core ice-cream production business (refer to section *Material Factors and Events*).
3. Reclassification of the non-current biological assets into a separate line item resulted in a decline in PPE by EUR 729 thousand.

Due to this decrease in the property, plant and equipment, the total non-current assets decreased by c. 5%. Total assets grew 5% on the back of a 25% rise in current assets.

Liabilities and equity

Total liabilities decreased by over 25% resulting from substantial repayment of the Group's debt. The Group repaid a material part of its long- and short-term loans with some part of IPO proceeds. Short-term loans and borrowings were reduced by 21% to EUR 34,742 thousand. Long-terms loans and borrowings more than halved to EUR 27,490 thousand. Net debt of the Group fell 63% and stood at EUR 35,766 thousand as of June 30, 2011. Total Debt Ratio constituted 0.51 vs. 0.71 in 2010.

The Group's total equity grew 79% to EUR 124,070 thousand on the back of a 70% rise in the retained earnings. Proceeds from the Group's IPO at the Warsaw Stock Exchange contributed EUR 48,687 thousand of the share premium to the total equity. Net debt/equity ratio improved from 1.38 as of June 30, 2010 to 0.29 as of June 30, 2011.

Basis of Preparation

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

Material Factors and Events

Material Factors and Events during the Reporting Period

Change in the system of government support for the producers of raw milk

Since 1998 until 31 December 2010, dairy producers were subject to a special VAT regime, as part of state subsidy system to raw milk producers. Ukrainian dairy producers, including the Group's milk processing facilities, were obliged to use the VAT that they charge on their dairy products solely to pay subsidies to raw milk producers instead of remitting such amounts to the state budget. The subsidy was calculated as the difference between the VAT that dairy producers charge on their dairy products and the VAT that they pay on raw milk purchased from the raw milk producers, and paid by the dairy producers to special accounts opened by the raw milk suppliers.

In accordance with the new Tax Code adopted in December 2010, starting from the 1st of January 2011, the new mechanism of the government support to raw milk producers is implemented. Under the new regulations, the government subsidy should be paid directly to raw milk producers by government agencies; therefore, milk processing companies are obliged to pay their VAT to state budget in full. The Government of Ukraine by its Regulation No. 246 dated 2 March 2011 adopted the order of such allocation of subsidies which, *inter alia,* established some requirements to raw milk producers, namely agricultural companies and individuals.

Meanwhile, the new mechanism is not implemented in full, which already has a negative effect on the industry. According to the Ukrainian Government data, in the first six months of 2011 subsidies paid to dairy farmers fell by c.98%. This situation led to a further 2.5% decrease in the cattle headcount in Ukraine in the first half of the year.

One of implications of the new mechanism for the Group is an increase in the production costs, since additional VAT should be paid to the state budget with no change in the milk purchase price y-o-y. The Group is working to mitigate this negative effect by means of increasing in-house milk production, as well as by supporting agricultural cooperatives in those regions of Ukraine where our dairies are located. For more information on the milk sourcing, refer to section *Operations: Heading to the Future Success*.

Changes in the Board of Directors and the Group's management

On 17 June, 2011, the Annual General Meeting of Shareholders of the Company appointed Mr. Fredrick Aherne as a CEO of the Company. Mr. Gerard Heerink was appointed as non-executive member of the Board of Directors for a period ending at the close of the Annual General Meeting of Shareholders to be held in 2012. Mr. Anatoliy Yurkevych, Mr. Vyacheslav Rekov and Mrs. Olga Yurkevych were re-appointed as members of the Board of Directors for the second four-year period of the office. On the same day, new Division of Duties of the Board of Directors was adopted.

On January 25, 2011 the Company received the notification of the resignation of Julia Zakharova from the position of the Company's and the Milkiland Group's CFO by her family reasons. Ms. Zakharova was not a member of the Board of Directors. On 13 May, 2011, Sergey Andriychuk was appointed at the position of the Company's and the Milkiland Group's CFO.

Profiles of the Board members and management team are available at the Company's web-site: http://www.milkiland.nl/en

Acquisition of significant assets

On April 21, 2011, LLC Agrosvit and DE Krasnosilske Moloko (Ukrainian subsidiary companies of Milkiland Group) concluded a purchase agreements for milking equipment with Subsidiary enterprise with foreign investments "DeLaval" (Ukrainian subsidiary of the leading international producer of milking equipment DeLaval). Under the terms of these agreements, LLC Agrosvit and DE Krasnosilske Moloko purchase milking equipment from DeLaval for the total of UAH 30.8 million (equivalent of EUR 2.7 million). Such equipment should be delivered and installed in two dairy cattle farms under construction.

Divestments of ice-cream facilities

In April 2011, Milkiland Group divested its non-core ice-cream production business. The respective ice-cream production equipment, inventories and trademarks Kashtan, Stolytsa and Kazkove were sold to a local buyer. Ice-cream sales amounted to less than 1% in the revenue of the Group in 2010.

Material Factors and Events after the Reporting Date

Milkiland retains export permits to Russia

Russian Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoznadzor) has finished its 2011 inspection of Ukrainian milk and meat processing companies. On July 12, Rosselkhoznadzor published a list of 28 Ukrainian companies, including 3 cheese producers, whose exports to Russia would be suspended due to non-compliance with animal health requirements and standards adopted in Russian Federation and the Customs Union of Russia, Kazakhstan and Belarus (http://www.fsvps.ru/fsvps/news/3344.html). Milkiland's cheese plants are in no way affected by these limitations and exports from these cheese plants continue as normal.

DE "Milkiland Ukraine" obtained Antimonopoly Committee permissions

The Antimonopoly Committee of Ukraine ("AMCU") by its resolution dated 8 July 2011 retrospectively permitted DE "Milkiland Ukraine", a wholly owned Ukrainian subsidiary of Milkiland N.V., to obtain control over 7 enterprises in Sumy region. The decision covers assets operated by the Group for some years.

Action Plan for 2011

The Group's management adopted an action plan for the second half of 2011 aimed at strengthening the market positions of the Group and improvement of the efficiency of its business. It includes, inter alia, the following:

Raw materials: continue vertical integration in order to improve competitive position in one of the most crucial segments of the dairy value chain:

- Further increase agricultural land bank and cattle stock by 30-50% through acquisitions of farms; prepare the base to triple own milk production in 2012;
- Commence building of modern dairy farms with the aim to launch them in mid 2012;
- Continue development of cooperatives and achieve up to 20% of raw milk supply from cooperatives by the year end.

Production: improve the processes and debottleneck

- accomplish technical master-plan for Ostankino and commence modernization;
- accomplish modernization of Akhtyrka and increase cheese-making capacities by 7,000 tons;
- further streamline the product mix in order to focus on more value-added products; SKUs to be optimized based on marginal contribution and growth strategy.

Sales and marketing:

- further invest into brand equity of Dobryana in Ukraine and Russia;
- expand and diversify client base in the existing and new markets.

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 30 June 2011 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 six months ended 30 June 2011 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, 26 August 2011

A. Yurkevych

F.J. Ahern

O. Yurkevych

P.I. Yokhym

W. S. van Walt Meijer

V. Rekov

G. Heerink

Milkiland N.V.

Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2011

MILKILAND N.V.
Condensed consolidated statement of financial position
(All amounts in euro thousands unless otherwise stated)

	Notes	30 June 2011	31 December 2010	30 June 2010
ASSETS				
Current Assets				
Cash and cash equivalents	9	26,466	37,757	8,010
Trade and other receivables		22,000	22,170	21,840
Inventories		28,088	25,665	27,094
Current biological assets	10	4,310	1,501	-
Current income tax assets		116	218	232
Other taxes receivable	11	19,908	21,061	23,392
Available for sale investments		110	-	-
		100,998	**108,372**	**80,568**
Non-Current Assets				
Goodwill		2,114	2,117	2,236
Property, plant and equipment	12	117,573	125,650	136,115
Non-current biological assets	10	1,186	729	-
Other intangible assets		713	347	375
Deferred income tax assets		28,163	30,503	19,607
Investments in associates		-	216	-
		149,749	**159,562**	**158,333**
TOTAL ASSETS		**250,747**	**267,934**	**238,901**
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables		17,874	15,529	20,390
Current income tax liabilities		404	365	272
Other taxes payable		1,440	1,011	1,569
Short-term loans and borrowings	13	34,742	43,764	44,148
		54,460	**60,669**	**66,379**
Non-Current Liabilities				
Loans and borrowings	13	27,490	36,072	59,524
Deferred income tax liability		44,223	47,761	43,274
Other non-current liabilities		504	454	521
		72,217	**84,287**	**103,319**
Total liabilities		**126,677**	**144,956**	**169,698**
Equity attributable to owners of the Company				
Share capital		3,125	3,125	2,500
Share premium		48,687	48,687	-
Revaluation reserve		33,226	34,664	31,305
Currency translation reserve		(17,078)	(12,070)	(7,474)
Retained earnings		50,287	42,441	29,598
		118,247	**116,847**	**55,929**
Non-controlling interests		5,823	6,131	13,274
Total equity		**124,070**	**122,978**	**69,203**
TOTAL LIABILITIES AND EQUITY		**250,747**	**267,934**	**238,901**

(All amounts in euro thousands unless otherwise stated)

	Notes	2011	2010
Revenue	14	127,490	121,094
Change in fair value of biological assets	15	1,356	-
Cost of sales	16	(91,667)	(74,986)
Gross Profit		**37,179**	**46,108**
Government grants recognised as income		671	251
Selling and distribution expenses	17	(10,102)	(9,912)
Administration expenses	18	(17,054)	(13,135)
Other expenses, net	19	214	(5,960)
Operating Profit		**10,908**	**17,352**
Finance income		856	603
Finance expenses		(4,245)	(6,828)
Foreign exchange gain/(loss), net		(499)	1,216
Profit before tax		**7,020**	**12,343**
Income tax	20	(331)	(636)
Net profit		**6,689**	**11,707**
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		(5,279)	4,630
Total comprehensive income		**1,410**	**16,337**
Profit attributable to:			
Owners of the Company		6,496	8,109
Non-controlling interests		193	57
		6,689	**8,166**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		1,488	18,216
Non-controlling interests		(78)	2,880
		1,410	**21,096**
Earnings per share, basic and dilluted (in euro cents)		**20.79**	**32.44**

(All amounts in euro thousands unless otherwise stated)

	2011	2010
Cash flow from operating activities:		
Profit before taxation	7,020	12,343
Adjustments for:		
Change in fair value of biological assets	(1,356)	-
Depreciation and amortization	4,688	4,492
Foreign exchange (gain)/loss	499	(1,216)
Loss from write off, revaluation and disposal of non-current assets	532	82
Change in provision and write off of trade and other accounts receivable	(64)	(81)
Change in provision and write off of unrealised VAT	(294)	5,156
Change in provision and write off inventories	471	(269)
Write off of accounts payable	(220)	-
Finance costs, net	3,389	6,225
Operating cash flows before working capital changes	**14,665**	**26,732**
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(220)	3,974
(Increase)/decrease inventories	(4,475)	(4,481)
(Increase)/decrease current biological assets	(1,658)	-
(Increase) decrease other taxes receivable	(165)	(17,271)
(Decrease)/increase in other taxes payable	520	567
(Decrease)/increase in accounts payable	5,532	3,490
Cash used by operations:	**14,199**	**13,011**
Interest paid	(4,287)	(6,790)
Interest received	945	602
Income taxes paid	(633)	(449)
Net cash from operating activity	**10,224**	**6,374**
Investing activities:		
Proceeds from sale of property, plant and equipment	239	15
Acquisition of property, plant and equipment and non-current biological assets	(3,444)	(1,833)
Acquisition of subsidiaries and non-controlling interest	(935)	(696)
Other investments	(110)	-
Net cash from investment activity	**(4,250)**	**(2,514)**
Financing activities:		
IPO costs paid	(782)	-
Proceeds from borrowings	17,613	37,087
Repayment of borrowings	(31,706)	(40,784)
Net cash from financial activity	**(14,875)**	**(3,697)**
Effect of exchange rate changes on cash and cash equivalents	(2,390)	1,172
Net increase in cash	**(11,291)**	**1,335**
Cash at beginning of the period	37,757	6,676
Cash at the end of the period	**26,466**	**8,010**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company								
	Share capital	Share premium	Additional capital	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
Balance at 1 January 2010	2,500	-	-	(14,152)	32,689	16,525	**37,562**	**12,648**	**50,210**
Total comprehensive income for the year	-	-	-	**6,660**	**-**	**11,544**	**18,204**	1,723	**19,927**
Acquisition of subsidiaries and non-controlling interests				18	217	(72)	**163**	(1,097)	**(934)**
Realised revaluation reserve, net of income tax	-	-	-	-	(1,601)	(1,601)	**-**	-	-
Balance at 30 June 2010	**2,500**	**-**	**-**	**(7,474)**	**31,305**	**26,396**	**55,929**	**13,274**	**69,203**
Balance at 1 January 2011	**3,125**	**48,687**	**-**	**(12,070)**	**34,664**	**42,441**	**116,847**	**6,131**	**122,978**
Total comprehensive income for the year	**-**	**-**	**-**	**(5,008)**	**-**	**6,496**	**1,488**	**(78)**	**1,410**
Realised revaluation reserve, net of income tax	-		-	-	(1,451)	1,451	**-**	-	**-**
Acquisition of subsidiaries and non-controlling interests	-		-	-	13	(101)	**(88)**	(230)	**(318)**
Balance at 30 June 2011	**3,125**	**48,687**	**-**	**(17,078)**	**33,226**	**50,287**	**118,247**	**5,823**	**124,070**

1 The Group and its operations

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the 3 months ended 31 December 2011 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 26 August 2011.

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 Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

As at 31 December 2010 the Company is owned by 1, Inc. Cooperatief (holding 72.8% 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 and in Russia, able to process up to 1,100 thousand tonnes of milk per year. The factories purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

(All amounts in euro thousands unless otherwise stated)

1 The Group and its operations (continued)

For the period from 31 December 2010 to 30 June 2011 the Company had the following direct and indirect subsidiaries:

Name	Location	30 June 2011	31 December 2010
		Effective share of	Effective share of
Milkiland Corporation	Panama	100%	100%
JSC Ostankino Dairy Combine	Russia, Moscow	93,87%	93,87%
DE Milkiland Ukraine	Ukraine	100%	100%
DE Aromat	Ukraine	100%	100%
PE Prometey	Ukraine	100%	100%
PE Ros	Ukraine	100%	100%
LLC Malka-trans	Ukraine	100%	100%
LLC Mirgorodsky Cheese Plant	Ukraine	100%	100%
JSC Kyiv Milk Plant #1	Ukraine	100%	100%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%
CSC Gorodnia Milk Plant	Ukraine	91,37%	91,37%
LLC Agrosvit	Ukraine	100,0%	76,0%
LLC Molochni vyroby	Ukraine	100%	100%
DE Borznyanskiy Milk Plant	Ukraine	100%	100%
LLC Molprod	Ukraine	100%	100%
LLC Syr-Trading	Ukraine	100%	100%
LLC Ukrainian Milk House	Ukraine	100%	100%
LLC Molochny pan	Ukraine	100%	100%
LLC Magazyn Moloko	Ukraine	100%	100%
LLC Moloko Polissia	Ukraine	100%	83,73%
JSC Transportnyk	Ukraine	70,3%	70,3%
LLC Molgrup	Ukraine	100%	100%
LLC Stugna-Moloko	Ukraine	100%	100%
LLC Trubizh-Moloko	Ukraine	100%	100%
CJSC Iskra	Ukraine	68,06%	68,06%
DE Agrolight	Ukraine	100%	100%
DE Krasnosilsky Milk	Ukraine	100%	100%
LLC Bachmachregionpostach	Ukraine	100%	100%
LLC Avtek Rent Service	Ukraine	100%	100%
AF Konotopska	Ukraine	100%	45%

During the six months ended 30 June 2011, the Group finalized acquisition of agricultural company AF Konotopska and acquired all non-controlling interests in agricultural companies LLC Agrosvit and LLC Moloko Polissia (note 7).

2 Operating environment of the Group

Operating environment of the Group. Russia and Ukraine represent major geographic areas where the Group operates. Both Russia and Ukraine display certain characteristics of emerging markets, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on both economies and the financial situation in the financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian and Ukrainian economies experienced moderate recoveries of economic growth. The recoveries was accompanied by lower refinancing rates, stabilisation of the exchange rates of the local currencies against major foreign currencies, and increased liquidity levels in the banking sectors.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. The new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

The tax, currency and customs legislation within the Russian Federation is also subject to varying interpretations and frequent changes. The future economic directions of Russia and Ukraine are largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the respective governments, together with tax, legal, regulatory and political developments.

Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Basis of preparation and significant accounting policies

Basis of preparation and statement of compliance. These condensed consolidated interim financial information for the six months ended 30 June 2011 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 financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs.

Summary of significant accounting policies. The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2010.

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

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.

3 Basis of preparation and significant accounting policies (continued)

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 50% of its raw milk requirements in Ukraine from individual household producers, while in Russia the Group sources its raw milk primarily from the farms, which are less susceptible to seasonal variations. However, due to Russia being a net importer of dairy products, prices for such products in Russia are more dependent on the world prices for dry milk, which are also subject to cyclicality and seasonal variations.

To supplement its supplies of raw milk from internal sources, the Group operates its own dairy farms to produce raw milk.

4 Significant accounting estimates and judgments

The preparation of the financial statements requires the management to make various estimations and assumptions that affect reporting values of the assets and liabilities as well as disclosure of information on contingent assets and liabilities at the 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:

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.

(All amounts in euro thousands unless otherwise stated)

5 Changes in presentation

As the Group continues to invest in agricultural segment and biological assets became material as at 30 June 2011 and are planned to further grow, management has reclassified current and non-current biological assets in the statement of financial position as at 31 December 2011 as the separate line items. Effects of reclassifications are summarised in the table below:

	As previously reported	Reclassifi-cations	As reclassified
Statement of financial position			
Property, plant and equipment	126,379	(729)	125,650
Non-current biological assets	-	729	729
Inventories	27,166	(1,501)	25,665
Current biological assets	-	1,501	1,501

6 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 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. It is the largest Group's segment;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products.

Other segments include production and distribution of dry milk, agricultural products, ice-cream and other products, which - although only contributing a relatively small amount of revenue to the Group, are monitored by the strategic chief operating decision-maker as well. Those results are summarised in ingredients segment.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted 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.

(All amounts in euro thousands unless otherwise stated)

6 Segment information (continued)

The segment information by country for the six months ended 30 June is as follows:

	2011			2010		
	Russia	**Ukraine**	**Total**	**Russia**	**Ukraine**	**Total**
Total segment revenue	50,703	95,297	146,000	50,147	81,798	131,945
Inter-segment revenue	-	(18,510)	(18,510)	-	(10,852)	(10,852)
Revenue from external customers	**50,703**	**76,787**	**127,490**	**50,147**	**70,946**	**121,093**
Adjusted EBITDA	**1,162**	**18,134**	**19,296**	**2,644**	**19,359**	**22,003**
Depreciation and amortisation	1,620	3,068	4,688	1,693	2,799	4,492

The segment information by product for the six months ended 30 June is as follows:

	2011				2010			
	Cheese & butter	**Whole-milk products**	**Ingre-dients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingre-dients**	**Total**
Revenue from external customers	**67,677**	**49,402**	**10,410**	**127,489**	**63,736**	**47,866**	**9,491**	**121,093**
Adjusted EBITDA	**14,933**	**2,649**	**1,715**	**19,297**	**16,185**	**4,335**	**1,483**	**22,003**
Depreciation and amortisation	1,843	2,398	447	4,688	1,854	2,448	162	4,464

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

A reconciliation of adjusted EBITDA to profit before tax:

	2011	**2010**
Adjusted EBITDA	**19,296**	**22,003**
Other segments EBITDA	(585)	(18)
Total segments	**18,711**	**21,926**
Depreciation and amortisation	(4,688)	(4,492)
Non-reccuring consulting and legal fees	(2,583)	-
Loss/(gain) from disposal and impairment of non-current assets	(532)	(82)
Finance costs - net	(3,389)	(6,225)
Foreign exchange loss	(499)	1,216
Profit before tax	**7,020**	**12,343**

(All amounts in euro thousands unless otherwise stated)

7 Acquisition of subsidiary and non-controlling interests

Acquisition of subsidiary

On 27 January 2011 the Group finalized acquisition of Ukrainian agricultural company AF Konotopska, having acquired outstanding 55% of company shares. As a result, the Group's equity interest in AF Konotopska increased from 45% to 100%.

The purchase consideration consisted only of cash at the amount of EUR 618 thousand.

Identifiable assets acquired and liabilities assumed:

Cash and cash equivalents	1
Accounts receivable	6
Taxes receivable	4
Inventories	443
PPE	516
Biological assets	
Lease land rights	419
Accounts payable	(257)
Taxes payable	(9)
Total net identifiable assets	**1,123**

The fair value of land lease rights have been determined on a provisional basis.

The result of the acquisition is summarized in the following table:

Cash paid	618
Fair value of existing interest	505
Fair value of identifiable assets	(1,123)
Goodwill	-

Acquisition related costs are insignificant.

Acquisition of non-controlling interests

During the three months ended 31 March 2011 the Group acquired non-controlling shares in agricultural companies: 16.27% in LLC Moloko Polissya and 24% in LLC Agrosvit for the total amount of EUR 319 thousand. As a result, the Group's equity interest in these entities increased to 100%. The carrying amount of these companies' net assets in the Group financial statements on the date of acquisition was EUR 1,101 thousand. The Group recognized a decrease in non-controlling interests of EUR 236 thousand and decrease in owners' equity at EUR 92 thousand.
The following table summarises the effect of acquisition:

	LLC Moloko Polissya	**LLC Agrosvit**	**Total**
The carrying amount of net assets at acquisition	540	617	1,157
Shares acquired	16.27%	24%	
Share of net assets acquired	88	148	236
Acquisition cost	(315)	(13)	(328)

(All amounts in euro thousands unless otherwise stated)

Result of acquisition	**(227)**	**135**	**(92)**

8 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 six months ended 30 June were as follows:

Entities under common control:	**2011**	**2010**
Sales revenue	1,107	1,641
Finance expenses on other borrowings	-	(634)

Direct shareholders:	**2011**	**2010**
Administrative expenses	184	-

Ultimate shareholders:	**2011**	**2010**
Finance expenses on other borrowings	12	122

The outstanding balances due from/(to) related parties as of 30 June 2011, 31 December 2010 and 30 June 2010 were as follows:

Entities under common control:	**30 June 2011**	**31 December 2010**	**30 June 2010**
Trade accounts receivable	223	287	258
Advances paid	-	-	359
Other accounts receivable	251	272	165
Non-current loans and borrowings from non-financial institutions	-	-	(11,009)
Interest payable	-		(65)

Ultimate shareholders:	**30 June 2011**	**31 December 2010**	**30 June 2010**
Current loans from non-financial institutions	-	2,096	1,218

All transactions with related parties are performed on an arm length basis.

Key management compensation

As a result of the rotation in the Board of Directors, the pervious Group CEO received an enhanced bonus entitlement for 2010 results. Accordingly, the Group has recognised an expense of EUR 1,861 thousand for the six months ended 30 June 2011 (2010: nil).

Key management compensation, except the bonus to the previous CEO, amounted to EUR 631 thousand for the six months ended 30 June 2011 (2010: EUR 302 thousand).

(All amounts in euro thousands unless otherwise stated)

9 Cash and cash equivalents

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

	30 June 2011	31 December 2010	30 June 2010
Short term deposits	20,318	27,736	4,923
Cash in bank and cash on hand	6,148	10,021	3,087
	26,466	**37,757**	**8,010**

10 Biological Assets

	30 June 2011		31 December 2010	
Current biological assets of animal breading				
	Units	Amount	Units	Amount
Cattle	2,580	835	1,696	784
Other	-	31	-	26
	2,580	**866**	**1,696**	**810**
Current biological assets of plant growing				
	Hectares	Amount	Hectares	Amount
Maize	6,230	2,004	-	-
Wheat	2,853	689	2,497	161
Barley	657	197	-	-
Other	4,565	284	-	-
Agriculture produce	-	270	-	529
	14,305	**3,444**	**2,497**	**690**
Total currrent biological assets	**-**	**4,310**	**-**	**1,501**
Non-current biological assets				
	Units	Amount	Units	Amount
Cattle	**2,105**	**1,186**	**1,996**	**729**

11 Other taxes receivable

	30 June 2011	31 December 2010	30 June 2010
VAT recoverable	19,715	20,778	23,049
Payroll related taxes	58	86	118
Other prepaid taxes	135	197	225
	19,908	**21,061**	**23,392**

VAT recoverable as at 30 June 2011 is shown net of provision at the amount of EUR 6,264 thousand (31 December 2010: EUR 8,241 thousand).

The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 26% (2010: 30%) of VAT refund claimed by the Group from the Ukrainian Government calculated based on the expected VAT recoverability.

12 Property, plant and equipment and intangible assets

(All amounts in euro thousands unless otherwise stated)

During six months ended 30 June 2011 the Group acquired assets with a cost of EUR 3,444 thousand (2010: EUR 1,640 thousand), which is mainly milk processing and agricultural production equipment.

13 Interest bearing loans and borrowings

	30 June 2011	31 December 2010	30 June 2010
Current			
Interest bearing loans due to banks	26,822	28,394	34,593
Loans from non-financial institutions	-	5,742	2,524
Bank overdrafts	-	-	1,440
	26,822	**34,136**	**38,557**
Short-term portion of long-term debt			
Interest bearing loans due to banks	7,754	9,518	5,441
Finance leases	166	110	150
	7,920	**9,628**	**5,591**
Total current borrowings	**34,742**	**43,764**	**44,148**
Non-current			
Interest bearing loans due to banks	27,141	32,566	36,725
Loans from non-financial institutions	15	3,287	22,499
Finance leases	334	219	300
Total non-current borrowings	**27,490**	**36,072**	**59,524**
Total borrowings	**62,232**	**79,836**	**103,672**

Movement in loans and borrowings during the six months ended 30 June was as follows:

	2011	2010
Opening balance	79,836	92,935
Obtained new loans and borrowings	17,613	37,087
Repaid loans and borrowings	(31,706)	(40,784)
Currency translation difference	(3,511)	14,434
Closing balance	**62,232**	**103,672**

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 June 20011 and 31 December 2010 are as follows:

	30 June 2011				31 December 2010			
	USD	UAH	RUR	Total	USD	UAH	RUR	Total
12 months or less								
Outstanding balance, thousand EUR	6,876	6,424	21,442	**34,742**	11,737	8,838	23,189	**43,764**
Average interest rate, %	10.73	17.00	8.81	**10.71**	11.16	24.43	9.52	**12.97**
1-5 years								
Outstanding balance, thousand EUR	24,307	3,183	-	**27,490**	29,025	7,047	-	**36,072**
Average interest rate, %	13.08	17.02	-	**13.53**	11.67	18.69	-	**13.04**

(All amounts in euro thousands unless otherwise stated)

14 Revenue

Sales revenue by product during the six months ended 30 June was as follows:

	2011	2010
Cheese&butter	67,677	63,736
Whole milk product	49,402	47,866
Ingredients	10,411	9,492
	127,490	**121,094**

Regional sales revenue during the six months ended 30 June was as follows:

	2011	2010
Russia	85,010	73,472
Ukraine	36,237	42,556
Other	6,243	5,066
	127,490	**121,094**

15 Change in fair value of biological assets and agricultural produce

Change in fair value of biological assets represents the revaluation of crops, predominantly maize and wheat, at fair value less costs to sell.

16 Cost of sales

	2011	2010
Raw and other materials	75,128	58,857
Wages and salaries	4,033	3,873
Depreciation	4,025	3,885
Transportation costs	4,204	3,610
Gas	3,380	2,786
Electricity	1,881	1,818
Social insurance contributions	1,390	1,250
Repairs of property, plant and equipment	686	726
Water	272	269
Other	467	420
Changes in finished goods and work in progress	(3,799)	(2,508)
	91,667	**74,986**

(All amounts in euro thousands unless otherwise stated)

17 Selling expenses

	2011	**2010**
Transportation costs	4,790	4,107
Security and other services	1,270	1,090
Marketing and advertising	439	1,372
Wages and salaries	2,305	2,199
Social insurance contributions	759	585
Licence fees	111	118
Rental costs	92	93
Depreciation and amortisation	56	60
Other	280	288
	10,102	**9,912**

18 Administrative expenses

	2011	**2010**
Wages and salaries	7,573	4,488
Social insurance contributions	1,540	936
Taxes and other charges	794	653
Representative charges	809	971
Other utilities	1,564	1,455
Bank charges	584	1,000
Repairs and maintenance	732	763
Depreciation and amortisation	607	547
Consulting fees	930	490
Security and other services	402	427
Transportation costs	299	417
Property insurance	312	254
Licence fees	293	226
Rental costs	171	153
Communication	136	106
Office supplies	48	44
Other	260	205
Total	**17,054**	**13,135**

(All amounts in euro thousands unless otherwise stated)

19 Other income and expenses

	2011	2010
Other operating income	940	457
Gain/(loss) from disposal of non-current assets	(532)	(82)
Gain from write off of accounts payable	220	-
Penalties	(117)	(61)
Loss from write off of inventories	(471)	(269)
Change in provision and write off of trade and other accounts receivable	64	81
Change in provision and write off of VAT receivable	294	(5,156)
Other expenses	(184)	(930)
	214	**(5,960)**

20 Income tax

	2011	2010
Current income tax	(894)	(749)
Deferred income tax	563	113
	(331)	**(636)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). Starting from April 2011 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 23% (2010: 25%), Russian profit was levied at the rate of 20% (2010: 20%) The profit of four Ukrainian companies of the Group (2010: one company) was subject to single agricultural tax, which is estimated based on the land area and normative valuation of the land. In the six months ended 30 June 2011 the Group has reflected the single tax at the amount of EUR 1 thousand (2010: EUR 1 thousand) in administrative expenses. In 2011 the tax rate for Panama operations was 0% (2010: 0%) on worldwide income.

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2011 is 4.7% (the estimated tax rate for the six months ended 30 June 2010 was 5.1%). This decrease is mainly due to decrease of income tax rate in Ukraine from 25% to 23% commencing from 1 April 2011.

21 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.

Taxation

Ukraine currently has a number of laws related to various taxes and levies imposed by both state and local authorities. Laws relating to these taxes are subject to frequent changes, and regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist within various bodies, thus creating uncertainties and areas of conflict. These facts create a tax risk in Ukraine substantially more significant than typically found in countries with a more developed tax system.

21 Contingent and deferred liabilities (continued)

The group's management believes that tax liabilities are provided sufficiently based on the tax legislation interpretation, official interpretations and court decisions. However, interpretations of corresponding inspection bodies may differ from the Group's position and the effect on the financial statements may be significant if these bodies are able to dispute these interpretations. As a result additional taxes, fines and penalties may be imposed. No provisions were charged as to contingent tax liabilities in these financial statements.

Insurance policies

The Group insures all significant property. As at 30 June 2011, 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.

As at 30 June 2011 the Company insured its property, plant and equipment for a total amount of EUR 80,415 thousand (as at 31 December 2010: EUR 87,012 thousand).

The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Acquisition of minority interest

According to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies, Milkiland N.V. is obliged to send a public offer about acquisition of other 166,679 ordinary registered shares to all minority shareholders of Ostankino Dairy Combine. Should all the minority shareholders exercise their sale option, Milkiland N.V. will be obliged to pay the total amount of EUR 3,063 thousand at 31 March 2011 (31 December 2010: EUR 3,016 thousand). Management is planning to send a public offer by the end of 2011.

Guarantees for third parties

As at 30 June 2011 the Group had a guarantee of EUR 5,297 thousand (31 December 2010: EUR 5,440 thousand) granted for the benefit of third party under the credit line provided by OTP bank.

Results of the first half of 2011

Press Release

Kyiv, August 29, 2011 - *Milkiland N.V. has published the Group's results of the first half of 2011.*

Highlights of the 1st half of 2011

Operational highlights

- Ongoing changes in government subsidy system for dairy farming in Ukraine resulted in a processors' margin squeeze, while average farm-gate raw milk prices in Ukraine were at the level of the first half of 2010
- The Group's in-house milk production more than doubled
- Milkiland's efforts in supporting of milk cooperatives resulted in more than 10% share of cooperatives in raw milk supply from households, with a strong upward trend
- The Group continued optimization of its product mix in order to build a winning portfolio
- The Group stays Ukrainian cheese exporter No. 1, providing for 28% of the country's exports

Financial highlight

- Revenue grew by 5% to EUR 127.5 million driven by better pricing and increased cheese sales in Russia
- Gross profit decreased by 19% on a backdrop of changes in the system of government subsidies to dairy industry in Ukraine
- EBITDA decreased by 15% to EUR 18.7 million, while EBITDA margin declined from 18.1% to 14.7% due to higher input costs
- Net profit fell 43% to EUR 6.7 million, mainly due to one-off expenses incurred. Net margin constituted 5.2% vs. 9.7% in the first half of 2010
- Net debt decreased by 63% and stood at EUR 35.8 million

Strategy and Operations

Comment by Fredrick Aherne, CEO of Milkiland N.V.:

"Like all dairy producers in Russia and Ukraine, we faced a tough situation in the first half of the year, when high farm-gate milk prices in Russia and changes in the system of government support in Ukraine resulted in a sharp rise of input costs. However, Milkiland was one of the few least-affected dairies, as we continued to build a complete dairy value chain in line with our previously adopted plans. Our downstream integration efforts were an undisputed success. We have started construction of two modern cattle farms equipped with the state-of-the-art milking and handling technology. At existing farms, our gross milk output in the first six months of 2011 more than doubled year-on-year to 4,200 tons.

In addition to the in-house milk production, we are actively supporting the creation of agricultural cooperatives in the regions of Ukraine where we source our raw milk. We believe that cooperatives can provide a key part of the long term recovery of the Ukraine herd population. The 16 cooperatives in 10 regions of Ukraine currently have almost 6,000 individual members and lease approximately 7,500 cows and already provide for more than 10% of Milkiland's household milk collection in Ukraine. We strongly believe that our strategy of encouraging cooperatives is one of the key planks of our long term success.

We also believe that the current market situation in Russia and Ukraine will push further dairy industry consolidation in the nearest future. We plan to capitalize on this trend in order to expand Milkiland's business. We are confident we will find good acquisition targets among those dairies failing to compete in the current market situation."

Financial overview

Revenue

In the first half of 2011, the Group's revenue grew c. 5% y-o-y to EUR 127.5 million, mainly on the back of better pricing and increased cheese sales in Russia. In the total revenue, cheese and butter sales accounted for 53%, whole milk products for 39%, same as in the first half of 2010.

Cost of sales and Gross profit

Cost of sales grew 22% due to a rise in the average effective raw milk price, especially, in Russia, while in Ukraine a change in the government subsidy system to dairy farmers contributed to higher costs paid by dairy producers. As a result, raw material costs increased by 28%.

The Group's gross profit decreased by 19% to EUR 37.2 million, and the gross margin squeezed from 38% to 29% in the first half of 2011.

Profit from operations and EBITDA

The pressure caused by rising raw milk costs on the gross margin resulted in a decrease in the Group's EBITDA by 15% to EUR 18.7 million, EBITDA margin constituted 14.7% in H1 2011 vs. 18.1% in H1 2010.

Profit before tax and Net profit

After repayment of the most expensive debts, the Group incurred significantly lower finance expenses – 38% less than in the same period of 2010. This positively contributed to the profit before tax and net profit. However, this positive impact was offset by several non-recurring expenses such as enhanced bonus to the Company's management (EUR 2 mln) and foreign exchange loss (EUR 1.2 mln). As a result, Milkiland's net profit has decreased by 43% y-o-y to EUR 6.7 million. Net margin constituted 5.2% vs. 9.7% in the first half of 2010.

Net debt

The Group has significantly improved its financial position by repaying the most expensive debts, resulting in 40% y-o-y decreases in the total debt, including 21% reduce in the short-term loans and borrowings and 54% reduce in long-term loans and borrowings. Net debt of the Group decreased by 63% and stood at EUR 35.8 million as of June 30, 2011. Total Debt Ratio constituted 0.51 vs. 0.71 in 2010. Net debt/equity ratio improved from 1.38 as of June 30, 2010 to 0.29 as of June 30, 2011.

About Milkiland N.V.

Milkiland is a TOP-5 diversified dairy producer operating in Russia and Ukraine, offering a wide range of dairy products such as fresh dairy, cheese and butter, to satisfy consumers in their everyday needs for healthy and tasty foods.

In Russia, the company produces fresh dairy products at Moscow-based OJSC "Ostankino Milk Combine" and sells under Ostankinskaya brand. Also, Dobryana Ukrainian cheese is sold in most of Russian regions. In Ukraine, the company operates 10 plants and offers wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands. Milkiland exports dairy products from Ukraine to over 30 countries.

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

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