



Interim Statement

Results of the nine months of 2011

Overview of Operations in 9M 2011

In 2011, Russian and Ukrainian markets experienced a number of unfavorable trends:

- 1) de-facto cancellation of raw milk subsidies in Ukraine that resulted in margin squeeze for Ukrainian processors and negatively affected raw milk volumes. We believe the industry has finally found its new equilibrium and the outlook is improving;
- 2) global economic turmoil that started in August 2011 resulted in scarce financial resources and significant ruble depreciation against euro, US dollar, and Ukrainian hryvnia, thus damaging exports margins of Ukrainian dairy exporters. We consider this as a short term factor to be adjusted in the near future.

On the positive side, Milkiland continues to experience strong demand for its products and managed to perform revenue and volume growth in the 9 months of 2011, with the Group's revenue higher 6% and EBITDA 15% lower compared to the same period of 2010.

In order to address milk supply challenges, Milkiland focused on building up its integrated supply system, including support of milk cooperatives and developing of in-house milk production. By the end of the third quarter, Milkiland achieved almost 15% of milk supply from cooperatives and continues to develop in this direction. In own milk production, Milkiland has acquired several farms and started modernization of existing sites, in order to secure significant volumes of milk in-house in 2012.

Key Operational Highlights

Supply-side:

- Raw milk production in Ukraine and Russia continued stagnation thus putting pressure on milk purchasing prices; according to State statistics average raw milk prices in 9M 2011 in Ukraine were 3.7%, in Russia 18.7% higher y-o-y
- As of October 1, 16 cooperatives supported by Milkiland attracted almost 16,000 individual members and accounted for over 19,000 milking cows
- The in-house cow headcount reached about 2,700 cows, arable land bank reached 18,100 hectares

Demand-side:

- Stronger selling prices to some extent compensated for negative factors such as lack of farmers' subsidies and rising energy prices
- The Group continued optimization of its product mix in order to build a winning portfolio, including introduction of new thermostatic products in Ukraine and rebranding of Ostankinskaya brand in Russia
- The Group stays Ukrainian cheese exporter No. 1
- A cheese supply contract with a leading Russian retailer Magnit was signed in early November in order to boost exports

Key Financial Highlights

- Revenue grew by 6% to EUR 201.3 million driven by stronger markets, better pricing and product mix. In the 3rd quarter of 2011, the Group's revenues were depressed by devaluation of ruble by 14% against euro
- Gross profit depressed by 21% on a backdrop of changes in the system of government subsidies to dairy industry and rising raw milk prices in Russia
- EBITDA depressed by 15% to EUR 28.9 million, while EBITDA margin declined from 17.9% to 14.3% due to ruble devaluation in the 3rd quarter and higher input costs
- Net profit decreased 20% to EUR 13.9 million

Segment Revenue and Performance

Cheese & butter segment contributed approximately 55% to the Group's total revenue (55% in 9M 2010) and 80% of the Group's total adjusted EBITDA. Segment revenue grew 5% to EUR 110.1 million on a back of increase in sales volumes and higher than in 2010 prices. Segment adjusted EBITDA decreased 7% to EUR 23 million.

The Group's cheese sales in Russia were somewhat affected by the Russian ruble depreciation in late-August through late-September. Russian currency lost c.14% during the above period when the Central Bank of Russia did not put any efforts to offset some negative expectations in the financial market which provoked the capital outflow from the country. To compensate for these changes in the macroeconomic environment, Milkiland steadily increased Ruble prices for cheese to follow the changes of the Ruble/USD exchange rate. It led to some slowdown in the cheese sales in the Russian market. As a result, more cheese was sold by the Group in Ukraine during this period. In mid-October, Russian Ruble started its upward correction, gaining back 8% in a month. This correction allowed the Group to re-gain its positions in the Russian market.

Additionally, in early November the Group expanded its presence in Russia by signing a cheese supply contract with one of the leading and the fastest growing Russian food retailers Magnit (CJSC Tander). As of September 30, 2011 the chain consisted of 4,593 convenience stores, 76 hypermarkets and 98 cosmetics stores in 1,325 locations in the Russian Federation. The Group received access to Magnit's 76 hypermarkets for a test period of two months. After these two months, Milkiland should expand its sales to all chain food stores. Milkiland has never supplied cheese to Magnit chain before. Since cheese sales to Russia are of key importance for Milkiland in terms of both revenue and marginal contribution, the Group's management expects that this contract will provide for better overall performance of the Group in late 2011 and 2012.

Whole-milk dairy is the second-largest segment in terms of revenue and EBITDA providing for 37% and 16% correspondingly (38% and 22% in 9M 2010). The segment revenue grew 3% to EUR 73.8 million, while segment EBITDA dropped 39% y-o-y.

In Ingredients and other products segment, revenue grew 21% to EUR 17.3 million and EBITDA increased by 10% to EUR 2.1 million in response to an increase in sales volume and a significant increase in global dairy commodity prices.

Cost of Sales and Gross Profit

Cost of sales grew by 24% to EUR 144.8 million due to a rise in the average effective raw milk price, especially, in Ukraine, where a change in the government subsidy system to dairy farmers contributed to higher costs paid by dairy producers.

Raw material costs increased by 31% and the share of raw materials in the total consolidated revenue grew from 48% to 60%. High natural gas prices in Ukraine also contributed to a 15% rise in gas costs.

At the same time, Ukrainian hryvnia and Russian ruble depreciation towards Euro contributed to a 7% decrease in wages and salaries of the production workforce in Ukraine and Russia.

As a result of the above factors, the Group's gross profit was 21% lower in 9M 2011 than in 9M 2010 (EUR 58.0 million and EUR 73.5 million respectively). The gross margin declined from 38.6% to 28.8%. The Group's management believes that building of the integrated supply chain is essential for offsetting the negative impact of the rising raw milk prices in the countries of operations.

Operating Profit and Adjusted EBITDA

The Group's adjusted EBITDA decreased by 15% to EUR 28.9 million, due to a decrease in the gross profit. However, EBITDA decrease was moderated by a cut in other operating expense such as change in provisions and write offs in VAT receivable. Before end-2010, this expense represented an increase in VAT receivable for exports from Ukraine, where the Group paid no VAT using it for subsidy to farmers instead. Since in 2011 the system of subsidies changed, the Group can cover its VAT payable charged on goods sold within Ukraine with the VAT receivable for exports. Thus, provisions and write offs in VAT receivable change more moderately than before. The Group's EBITDA margin constituted 14.3% in the nine months of 2011 vs. 17.9% in the nine months of the past year.

Financial Expense, Profit before Tax and Net Profit

A 27% y-o-y decrease in the most expensive loans and borrowings contributed to a 39% decline of the finance expense. However, as a result of the decreasing gross profit, profit before tax dropped 20% from EUR 18.5 million to EUR 14.8 million. Net profit fell same 20% to EUR 13.9 million.

REPRESENTATION

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 30 September 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 nine months ended 30 September 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, 11 November 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 nine months ended 30 September 2011

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MILKILAND N.V.**Condensed consolidated interim statement of financial position**

(All amounts in euro thousands unless otherwise stated)

	Notes	30 September 2011	31 December 2010	30 September 2010
ASSETS				
Current Assets				
Cash and cash equivalents	9	27,327	37,757	19,392
Trade and other receivables	10	30,261	22,170	26,984
Inventories	11	36,548	25,665	32,945
Current biological assets	14	5,204	1,501	-
Current income tax assets		129	218	377
Other taxes receivable	12	24,050	21,061	19,888
		123,519	108,372	99,586
Non-Current Assets				
Goodwill		2,213	2,117	2,065
Property, plant and equipment	13	119,458	125,650	122,144
Non-current biological assets	14	1,518	729	-
Other intangible assets		747	347	346
Deferred income tax assets		30,184	30,503	17,614
Investments in associates		222	216	-
		154,342	159,562	142,169
TOTAL ASSETS		277,861	267,934	241,755
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	15	19,720	15,529	32,138
Current income tax liabilities	23	463	365	245
Other taxes payable		2,938	1,011	1,189
Short-term loans and borrowings	16	44,601	43,764	47,336
		67,722	60,669	80,908
Non-Current Liabilities				
Loans and borrowings	16	28,164	36,072	52,740
Deferred income tax liability		46,445	47,761	39,168
Other non-current liabilities		1,424	454	461
		76,033	84,287	92,369
Total liabilities		143,755	144,956	173,277
Equity attributable to owners of the Company				
Share capital		3,125	3,125	2,500
Share premium		48,687	48,687	
Revaluation reserve		31,823	34,664	30,373
Currency translation reserve		(14,278)	(12,070)	(12,706)
Retained earnings		58,803	42,441	35,767
		128,160	116,847	55,934
Non-controlling interests		5,946	6,131	12,544
Total equity		134,106	122,978	68,478
TOTAL LIABILITIES AND EQUITY		277,861	267,934	241,755

MILKILAND N.V.**Condensed consolidated interim statement of comprehensive income**

(All amounts in euro thousands unless otherwise stated)

		Nine months ended 30 September		Three months ended 30 September	
	Notes	2011	2010	2011	2010
Revenue	17	201,265	190,650	73,775	70,525
Change in fair value of biological assets	18	1,517	-	161	-
Cost of sales	19	(144,765)	(117,108)	(53,098)	(42,122)
Gross Profit		58,017	73,542	20,838	28,403
Government grants recognised as income		929	478	258	227
Selling and distribution expenses	20	(15,711)	(14,098)	(5,609)	(5,155)
Administration expenses	21	(24,868)	(23,732)	(7,814)	(10,597)
Other expenses, net	22	304	(9,821)	90	(3,861)
Operating Profit		18,671	26,369	7,763	9,017
Finance income		1,500	922	644	319
Finance expenses		(5,920)	(9,726)	(1,675)	(2,898)
Foreign exchange gain/(loss), net		507	924	1,006	(292)
Profit before tax		14,758	18,489	7,738	6,146
Income tax	23	(879)	(1,245)	(548)	(609)
Net profit		13,879	17,244	7,190	5,537
Other comprehensive income/(loss)					
Exchange differences on translating to presentation currency		(2,433)	1,958	2,846	(6,262)
Total comprehensive income		11,446	19,202	10,036	(725)
Profit attributable to:					
Owners of the Company		13,609	16,782	7,113	5,238
Non-controlling interests		270	462	77	299
		13,879	17,244	7,190	5,537
Total comprehensive income/(loss) attributable to:					
Owners of the Company		11,401	18,209	9,913	5
Non-controlling interests		45	993	123	(730)
		11,446	19,202	10,036	(725)
Earnings per share, basic and diluted (in euro cents)		43.55	67.13	22.76	20.95

MILKILAND N.V.**Condensed consolidated interim statement of cash flow**

(All amounts in euro thousands unless otherwise stated)

	2011	2010
<i>Cash flow from operating activities:</i>		
Profit before taxation	14,758	18,489
Adjustments for:		
Change in fair value of biological assets	(1,517)	-
Depreciation and amortization	6,725	6,977
Foreign exchange (gain)/loss	(507)	(924)
Loss from write off, revaluation and disposal of non-current assets	593	890
Change in provision and write off of trade and other accounts receivable	(147)	452
Change in provision and write off of unrealised VAT	(1)	7,407
Change in provision and write off inventories	624	405
Write off of accounts payable	(347)	(317)
Finance costs, net	4,421	8,804
Operating cash flows before working capital changes	24,602	42,183
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(9,425)	(5,493)
(Increase)/decrease inventories	(11,877)	(15,294)
(Increase)/decrease current biological assets	(2,055)	-
(Increase) decrease other taxes receivable	(3,128)	(16,869)
(Decrease)/increase in other taxes payable	2,842	337
(Decrease)/increase in accounts payable	8,940	19,412
Cash used by operations:	9,899	24,276
Interest paid	(5,932)	(9,752)
Interest received	1,495	921
Income taxes paid	(1,064)	(1,134)
Net cash from operating activity	4,398	14,311
<i>Investing activities:</i>		
Proceeds from sale of property, plant and equipment	882	20
Acquisition of property, plant and equipment and biological assets	(5,941)	(3,114)
Acquisition of subsidiaries and non-controlling interest	(2,460)	(933)
Net cash from investment activity	(7,519)	(4,027)
<i>Financing activities:</i>		
IPO costs paid	(782)	-
Proceeds from borrowings	28,899	52,105
Repayment of borrowings	(32,756)	(49,635)
Net cash from financial activity	(4,639)	2,470
Effect of exchange rate changes on cash and cash equivalents	(2,670)	(37)
Net increase in cash	(10,430)	12,717
Cash at beginning of the period	37,757	6,676
Cash at the end of the period	27,327	19,393

MILKILAND N.V.**Condensed Consolidated interim statement of changes in equity**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company							Total equity
	Share capital	Share premium	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	
Balance at 1 January 2010	2,500	-	(14,152)	32,689	16,524	37,561	12,648	50,209
Total comprehensive income for the year	-	-	1,427	-	16,782	18,209	993	19,202
Acquisition of subsidiaries and non-controlling interests	-	-	19	217	(72)	164	(1,097)	(933)
Realised revaluation reserve, net of income tax	-	-	-	(2,533)	2,533	-	-	-
Balance at 30 September 2010	2,500	-	(12,706)	30,373	35,767	55,934	12,544	68,478
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	-	-	(2,208)	-	13,609	11,401	45	11,446
Acquisition of subsidiaries and non-controlling interests	-	-	-	13	(101)	(88)	(230)	(318)
Realised revaluation reserve, net of income tax	-	-	-	(2,854)	2,854	-	-	-
Balance at 30 September 2011	3,125	48,687	(14,278)	31,823	58,803	128,160	5,946	134,106

1 The Group and its operations

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the 9 months ended 30 September 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 11 November 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.

1 The Group and its operations (continued)

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

Name	Location	30 September 2011	31 December 2010
		Effective share of ownership	Effective share of ownership
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 Molochnivroby	Ukraine	100%	100%
DE Borznyiyskiy 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%
LLC Batkivschyna	Ukraine	100%	-

During the nine months ended 30 September 2011, the Group finalized acquisition of agricultural companies AF Konotopska, LLC Batkivschyna and acquired all non-controlling interests in agricultural companies LLC Agrosvit, LLC Moloko Polissia and (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.

2 Operating environment of the Group (continued)

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 nine months ended 30 September 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.

(a) New standards, interpretations and amendments effective from 1 January 2011 and relevant to the Group:

- Amendment to IAS 24, 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011.

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).
- 'Classification of Rights Issues' (Amendment to IAS 32), issued in October 2009;
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments', effective for annual periods beginning on or after 1 July 2010;
- Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters- Amendment to IFRS 1.
- 'Prepayments of a minimum funding requirement' (Amendment to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group, as it does not have any defined benefit assets.

3 Basis of preparation and significant accounting policies (continued)

(c) *The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial periods beginning 1 January 2011, have not been endorsed by the EU and have not been early adopted by the Group:*

- IFRS 9, 'Financial instruments' (issued in November 2009, further amended in October 2010 and effective for annual periods beginning on or after 1 January 2013).
- 'Disclosures—Transfers of Financial Assets' (Amendments to IFRS 7) issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.
- Recovery of Underlying Assets - Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).
- Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters - Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IAS 27, Separate financial statements (revised in 2011 and effective for annual periods beginning on or after 1 Jan 2013).
- IAS 28, Associates and joint ventures (revised in 2011 and effective for annual periods beginning on or after 1 Jan 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued June 2011, effective for periods beginning on or after 1 January 2013).

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

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

Management believes that the raw milk prices in Russia are affected by seasonality to a lesser extent than in Ukraine due to the differences in structure of raw milk supplies. The Group sources approximately 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 cyclicity and seasonal variations.

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

3 Basis of preparation and 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.

The 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. The income and expenses of foreign operations are translated to euro at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

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

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

	US dollar	UAH	RUR
Average for nine months ended 30 September 2011	1.4065	11.1997	43.3979
As at 30 September 2011	1.3503	10.7655	40.4345
As at 31 December 2010	1.3362	10.6384	40.3331
Average for nine months ended 30 September 2010	1.3007	10.8003	39.8060
As at 30 September 2010	1.3648	10.2931	41.3481

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.

5 Changes in presentation

As the Group continues to invest in agricultural segment and biological assets became material as at 30 September 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.

In the course of preparation of financial statements for nine months ended 30 September 2010 management has revised trade discounts to customers from selling expenses to reduction of revenue.

Effects of reclassifications are summarized 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	29,975	(4,310)	25,665
Current biological assets	-	1,501	1,501

	As previously reported	Reclassifi- cations	As reclassified
Statement of Comprehensive Income			
Nine months ended 30 September 2010			
Revenue	192,104	(1,454)	190,650
Selling and distribution expenses	(15,552)	1,454	(14,098)

	As previously reported	Reclassifi- cations	As reclassified
Statement of Comprehensive Income			
three months ended 30 September 2010			
Revenue	71,010	(485)	70,525
Selling and distribution expenses	(5,640)	485	(5,155)

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 summarized 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 inappropriate 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 nine months ended 30 September is as follows:

	2011			2010		
	Russia	Ukraine	Total	Russia	Ukraine	Total
Total segment revenue	78,435	149,748	228,183	74,438	131,418	205,856
Inter-segment revenue	-	(26,918)	(26,918)	-	(15,206)	(15,206)
Revenue from external customers	78,435	122,830	201,265	74,438	116,212	190,650
Adjusted EBITDA	3,580	26,116	29,696	4,082	30,048	34,130
Depreciation and amortisation	2,422	4,304	6,726	2,548	4,429	6,977

6 Segment information (continued)

The segment information by product for the nine months ended 30 September 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	110,138	73,820	17,307	201,265	104,581	71,754	14,315	190,650
Adjusted EBITDA	22,999	4,575	2,122	29,696	24,703	7,493	1,934	34,130
Depreciation and amortisation	2,589	3,505	631	6,725	2,931	3,750	296	6,977

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	29,696	34,130
Other segments EBITDA	(843)	(65)
Total segments	28,853	34,065
Depreciation and amortisation	(6,725)	(6,977)
Non-recurring consulting and legal fees	(2,864)	171
Loss/(gain) from disposal and impairment of non-current assets	(593)	(890)
Finance costs - net	(4,420)	(8,804)
Foreign exchange loss	507	924
Profit before tax	14,758	18,489

7 Acquisition of subsidiary and non-controlling interests**Acquisition of subsidiaries**

During the nine months ended 30 September 2011 the Group acquired 100% shares in agricultural company LLC Batkivschyna. The deal was finalized on October 3 and the respective Antimonopoly Committee of Ukraine permission was obtained on October 14.

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 and EUR 1,296 thousand for AF Konotopska and LLC Batkivschyna respectively.

7 Acquisition of subsidiary and non-controlling interests (continued)

Identifiable assets acquired and liabilities assumed:

	AF Konotopska	LLC Batkivschyna
Cash and cash equivalents	1	113
Accounts receivable	6	338
Taxes receivable	4	35
Inventories	443	1,045
PPE	516	835
Biological assets	-	687
Other intangible assets	419	-
Accounts payable	(257)	(530)
Taxes payable	(9)	(19)
Other non-current liabilities	-	(954)
Total net identifiable assets	1,123	1,550

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:

	AF Konotopska	LLC Batkivschyna
Cash paid	618	1,296
Fair value of existing interest	505	(353)
Fair value of identifiable assets	(1,123)	1,550
Goodwill	-	99

Acquisition related costs are insignificant.

Acquisition of non-controlling interests

During the nine months ended 30 September 2011 the Group acquired non-controlling shares in agricultural companies: 16.27% in LLC Moloko Polissia 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 230 thousand and decrease in owners' equity at EUR 88 thousand.

The following table summarizes the effect of acquisition:

	LLC Moloko Polissia	LLC Agrosvit	Total
The carrying amount of net assets at acquisition	557	580	1,137
Shares acquired	16.27%	24%	
Share of net assets acquired	91	139	230
Acquisition cost	(311)	(7)	(318)
Result of acquisition	(220)	132	(88)

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 nine months ended 30 September were as follows:

<i>Entities under common control:</i>	2011	2010
Sales revenue	1,743	2,042
Finance expenses on other borrowings	-	(1,172)
<i>Direct shareholders:</i>		
	2011	2010
Administrative expenses	286	-
<i>Ultimate shareholders:</i>		
	2011	2010
Finance expenses on other borrowings	18	167

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

	30 September 2011	31 December 2010	30 September 2010
<i>Entities under common control:</i>			
Trade accounts receivable	270	287	316
Advances paid			441
Other accounts receivable	269	272	203
Non-current loans and borrowings from non-financial institutions			(13,509)
Interest payable			(80)
<i>Ultimate shareholders:</i>			
	30 September 2011	31 December 2010	30 September 2010
Current loans from non-financial institutions	-	2,096	1,495

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 previous Group CEO received an enhanced bonus entitlement for 2010 results. Accordingly, the Group has recognized an expense of EUR 1,861 thousand for the nine months ended 30 September 2011 (2010: nil).

Key management compensation, except the bonus to the previous CEO, amounted to EUR 1,011 thousand for the nine months ended 30 September 2011 (2010: EUR 454 thousand).

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 September 2011	31 December 2010	30 September 2010
Short term deposits	25,031	27,736	6,853
Cash in bank and cash on hand	2,296	10,021	12,539
	27,327	37,757	19,392

10 Trade and other receivables

	30 September 2011	31 December 2010	30 September 2010
Trade accounts receivable	23,170	20,178	22,713
Other financial assets	-	272	-
Allowance for doubtful debts	(1,314)	(2,391)	(2,854)
Total financial assets within trade and other receivables	21,856	18,059	19,859
Advances issued	4,256	3,269	3,618
Other receivables	7,369	4,227	6,733
Allowance for doubtful debts	(3,220)	(3,385)	(3,226)
	30,261	22,170	26,984

11 Inventories

	30 September 2011	31 December 2010	30 September 2010
Raw and other materials	12,514	10,267	13,530
Finished goods and work in progress	24,034	15,398	19,415
	36,548	25,665	32,945

12 Other taxes receivable

	30 September 2011	31 December 2010	30 September 2010
VAT recoverable	23,866	20,778	19,654
Payroll related taxes	65	86	59
Other prepaid taxes	119	197	175
	24,050	21,061	19,888

VAT recoverable as at 30 September 2011 is shown net of provision at the amount of EUR 6,767 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.

13 Property, plant and equipment and intangible assets

During nine months ended 30 September 2011 the Group acquired assets with a cost of EUR 5,941 thousand (2010: EUR 3,114 thousand), which is mainly milk processing and agricultural production equipment.

14 Biological Assets

	30 September 2011		31 December 2010	
	Units	Amount	Units	Amount
Current biological assets of animal breeding				
Cattle	4,054	1,524	1,696	784
Other		90		26
		1,614		810
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Maize	6,230	2,244	-	-
Wheat	2,877	570	2,497	161
Barley	781	205	-	-
Other	4,565	241	-	-
Agriculture produce	-	330	-	529
	14,453	3,590	-	690
Total current biological assets		5,204	-	1,501
Non-current biological assets	Units	Amount	Units	Amount
Cattle	2,713	1,518	1,996	729

15 Trade and other payables

	30 September 2011	31 December 2010	30 September 2010
Trade payables	12,351	7,780	12,435
Wages and salaries payable	1,700	1,234	1,338
Accounts payable for fixed assets	95	193	167
Accrual for audit fees and consulting services	13	616	90
Accruals for bonuses	711	1,871	1,413
Interest payable	344	365	325
Total financial liabilities within trade and other payable	15,214	12,059	15,768
Advances received	1,623	1,074	10,191
Other accounts payable	1,503	971	4,904
Accruals for employees' unused vacations	1,380	1,425	1,275
	19,720	15,529	32,138

16 Interest bearing loans and borrowings

	30 September 2011	31 December 2010	30 September 2010
Current			
Interest bearing loans due to banks	38,279	28,394	37,608
Loans from non-financial institutions	-	5,742	-
	38,279	34,136	37,608
Short-term portion of long-term debt			
Interest bearing loans due to banks	6,062	9,518	9,594
Finance leases	260	110	134
	6,322	9,628	9,728
Total current borrowings	44,601	43,764	47,336
Non-current			
Interest bearing loans due to banks	27,644	32,566	45,423
Loans from non-financial institutions		3,287	7,047
Finance leases	520	219	270
Total non-current borrowings	28,164	36,072	52,740
Total borrowings	72,765	79,836	100,076

Movement in loans and borrowings during the nine months ended 30 September was as follows:

	2011	2010
Opening balance	79,836	92,935
Obtained new loans and borrowings	28,899	52,105
Repaid loans and borrowings	(32,756)	(49,635)
Forex exchange gain	(3,214)	4,671
Closing balance	72,765	100,076

16 Interest bearing loans and borrowings (continued)

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 September 2011 and 31 December 2010 are as follows:

	30 September 2011				31 December 2010			
	USD	UAH	RUR	Total	USD	UAH	RUR	Total
12 months or less								
Outstanding balance, thousand EUR	11,974	3,406	29,221	44,601	11,737	8,838	23,189	43,764
Average interest rate, %	10.45	18.33	8.53	9.79	11.16	24.43	9.52	12.97
1-5 years								
Outstanding balance, thousand EUR	24,290	3,874	-	28,164	29,025	7,047	-	36,072
Average interest rate, %	11.78	17.00	-	12.49	11.67	18.69	-	13.04

17 Revenue

Sales revenue by product during the nine months and three months ended 30 September was as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010
Cheese&butter	110,138	104,581	42,461	41,399
Whole milk product	73,820	71,754	24,418	24,304
Ingredients	17,307	14,315	6,896	4,822
	201,265	190,650	73,775	70,525

Regional sales revenue during the nine months and three months ended 30 September was as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010
Russia	132,649	121,962	47,639	48,490
Ukraine	58,137	60,469	21,900	18,882
Other	10,479	8,219	4,236	3,153
	201,265	190,650	73,775	70,525

18 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 (note 14).

19 Cost of sales

	Nine months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010
Raw and other materials	120,954	92,239	45,825	33,382
Wages and salaries	6,332	6,822	2,299	2,949
Depreciation	5,792	6,031	1,767	2,146
Transportation costs	6,572	6,374	2,368	2,764
Gas	5,672	4,942	2,291	2,156
Electricity	3,026	3,255	1,145	1,438
Social insurance contributions	2,248	2,227	858	978
Repairs of property, plant and equipment	953	1,137	267	412
Water	460	434	188	165
Other	629	876	162	453
Changes in finished goods and work in progress	(7,873)	(7,229)	(4,072)	(4,721)
	144,765	117,108	53,098	42,122

20 Selling expenses

	Nine months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010
Transportation costs	7,328	6,554	2,538	2,446
Security and other services	2,164	1,693	894	603
Marketing and advertising	682	751	260	347
Wages and salaries	3,514	3,413	1,209	1,213
Social insurance contributions	1,120	862	360	277
Licence fees	198	170	87	52
Rental costs	176	185	84	91
Depreciation and amortisation	83	90	27	30
Other	446	380	150	96
	15,711	14,098	5,609	5,155

21 Administrative expenses

	Nine months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010
Wages and salaries	10,722	10,317	3,158	5,840
Social insurance contributions	2,376	1,466	836	530
Representative charges	999	1,242	190	271
Taxes and other charges	833	722	285	261
Environmental charges	309	265	64	72
Other utilities	2,414	2,238	850	783
Consulting fees	1,430	901	500	410
Bank charges	971	1,324	386	325
Repairs and maintenance	1,086	1,161	354	397
Depreciation and amortisation	850	856	243	309
Security and other services	595	628	194	201
Transportation costs	376	760	77	342
Property insurance	460	566	148	312
Licence fees	455	407	162	181
Rental costs	248	243	77	90
Communication	210	163	74	57
Office supplies	72	63	25	19
Benefits	14	17	5	5
Other	448	393	186	182
Total	24,868	23,732	7,814	10,597

22 Other income and expenses

	Nine months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010
Other operating income	515	339	66	57
Gain from write off of accounts payable	347	317	127	317
Rental income	808	114	318	39
Gain/(loss) from disposal of non-current assets	(593)	(890)	(62)	(808)
Fines and penalties	(181)	(88)	(64)	(27)
Gain/(Loss) from disposal of inventories	(617)	(405)	(146)	(135)
Change in provision and write off of trade and other accounts receivable	147	(452)	83	(533)
Change in provision and write off of unrealised VAT	1	(7,407)	(293)	(2,251)
Change in fair value of financial instruments	(33)	-	(35)	-
Other expenses	(90)	(1,349)	96	(520)
	304	(9,821)	90	(3,861)

23 Income tax

	For the nine months ended 30 September		For the three months ended 30 September	
	2011	2010	2011	2010
Current income tax	(1,045)	(1,133)	(150)	(384)
Deferred income tax	166	(112)	(398)	(225)
	(879)	(1,245)	(548)	(609)

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 nine months ended 30 September 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 recognized 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 nine months ended 30 September 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.

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.

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.

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 September 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.

24 Contingent and deferred liabilities (continued)

As at 30 September 2011 the Company insured its property, plant and equipment for a total amount of EUR 80,895 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 2,804 thousand at 31 September 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 September 2011 the Group had a guarantee of EUR 5,058 thousand (31 December 2010: EUR 5,440 thousand) granted for the benefit of third party under the credit line provided by OTP bank.