



## **Interim Statement**

### **Results of the first quarter 2012**

Milkiland N.V. hereby publishes the Group's results of the first three months of 2012.

#### **Highlights of the 1<sup>st</sup> quarter 2012**

##### *Overview*

The first quarter is usually the least profitable period for dairy producers in CIS region, as seasonal shortage of milk prevents volume growth and puts pressure on margins. In addition to usual seasonal factors, the first quarter of 2012 for Milkiland was featured by two major developments:

- Re-introduction of government raw milk subsidy system should turn positively for 2012 results; however, in the first quarter the effect on margins was only partial, since significant part of cheese, dry milk and butter sold was actually produced from “no-subsidy” milk purchased in the end of 2011;
- Restrictions imposed by Russia on Ukrainian cheese exports became a major challenge for large exporters, including Milkiland. However, the Group successfully mitigated this unfavorable development thanks to its diversified business model. Exports restrictions also triggered downward correction of milk prices, which will have main economic impact in the next periods.

As a result of the above, for Q1 2012 Milkiland posted its revenue and EBITDA of, respectively, EUR 67.7 and EUR 6.6 million - slightly lower than planned by the Group, but quite comfortable to catch up in later periods and fulfill the Group's financial targets for 2012.

It is important to note that direct comparison of Q1 EBITDA for 2011 and 2012 is somewhat misleading, since in Q1 2011 margins benefited from “subsidy” milk purchases made in the end of 2010, while in Q1 2012 the situation was just the opposite.

##### *Financial results*

- Revenues grew by c. 6% to EUR 67.7 million driven by better volume sales in the WMP segment, mainly in Russia
- Compared to Q1 2011, gross profit decrease by 13% to c. EUR 15 million, and EBITDA decreased by 30% to EUR 6.6 million, mainly due to higher input costs caused by differences of transition from “subsidy” to “no-subsidy” system in 2011
- Net profit depressed by c.62% to EUR 1.9 million, as a result of lower EBITDA
- In Q1 2012 Milkiland has repaid c. EUR 29 million of the most expensive loans from syndicated loan proceeds obtained in December 2011, following its intention to decrease finance costs. As a result, the Group's debt portfolio during the 1<sup>st</sup> quarter 2012 has decreased 27%, to c. EUR 70 million. Reduction in short-term and long-term loans was, respectively, 30% and 18%.

## Overview of Operations in Q1 2012

### *Subsidy system back in force*

Partial restoration of the system of government subsidies for dairy farmers will decrease milk cost for milk processors and reflect positively on margins. Starting from January 1, 2012, Ukrainian dairy processors are allowed to retain 70% of VAT charged on goods sold on a special account and pay subsidy to raw milk suppliers with it thus covering some part of input costs.

In Q1 2012, Milkiland paid c. EUR 1.4 million of this subsidy to farmers. Due to technical delays in implementation of the subsidy system and 1-2 months operational cycle for many products (cheese, butter, dry milk), we expect that favorable implications of the new system will come into full force starting from the second quarter of 2012.

### *Restrictions of cheese exports to Russia*

In February 2012 Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor) partially banned cheese exports for several Ukrainian producers, including Milkiland. Such restrictions were imposed after several allegations made by Rospotrebnadzor in respect of sub-par quality of Ukrainian cheese. These actions of Rospotrebnadzor were actively protested by Ukrainian producers and authorities, escalating to wide public discussion around the topic.

Milkiland has conducted a number of independent analyses proving high quality of its cheese and compliance with Russian technical requirements. Finally, on April 18, 2012, Rospotrebnadzor has lifted its ban for three Ukrainian producers, including Milkiland's Mena plant, after site inspections were made and quality control process for cheese exports to Russia was agreed.

In order to prevent cheese quality disputes in future, the parties agreed to establish a laboratory that would control, on a regular basis, quality of cheese exported to Russia.

In Q1 2011, this situation partially limited Milkiland's ability to sell cheese in Russian market. During the period when Mena was closed for exports, the Group served Russian market from its other cheese plants. Some excessive volumes of milk were used for production of other products, mainly skimmed dry milk and butter.

On the positive side, these limitations triggered the downward correction of raw milk prices in Ukraine. By the end of 2012, raw milk prices in Ukraine have dropped by c. 22%. Such trend is expected to turn favorably on processors' margins in the next periods.

### *Milk sourcing*

In line with its strategy to build up an integrated supply system, Milkiland put further efforts to support milk cooperatives and develop in-house milk production. In Q1 2012, milk supply from cooperatives exceeded 20%, from own farms c.4% of the total milk intake in Ukraine. The in-house milk output grew by c.40% y-o-y.

## Overview of Financial Results in Q1 2012

### **Segment revenue and performance**

*Cheese & butter segment* contributed approximately 56% to the Group's total revenue and 68% to the EBITDA (54% and 72% respectively in Q1 2010). Segment revenue grew 10% to EUR 37.6 million on a back of better pricing offset by a decrease in sale volumes due to restrictions on Ukrainian cheese exports to Russia imposed by the Rospotrebnadzor in February. According to industry experts, before these restrictions, Ukraine provided for c. 9% of the total Russian cheese market, up to one-third of which was contributed by Milkiland. The Group's management believes Milkiland can retain its leading positions in the Russian cheese market after Russian restrictions were lifted in April.

*Whole-milk dairy* is the second largest segment in terms of revenue and EBITDA providing for 41% and 27% respectively (39% and 16% in Q1 2010). The segment revenue grew 11% to EUR 28 million on a back of better volume sales in Russia, while segment EBITDA grew 26% from EUR 1.5 million to EUR 1.9 million, reflecting better product mix and pricing in Ukraine.

In *Ingredients and other products segment*, revenue decreased by c. 50% to EUR 2.2 million, while segment's EBITDA fell 71% to EUR 0.3 million. The main reason for this drop is a change in the product mix. Unlike in the first quarter of 2011, in 2012 this segment accounted for sales of agricultural produce, such as maize, while sales of dry milk products were reduced due to unfavorable price/cost situation.

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

Cost of sales grew by EUR 6 million or by 13% to EUR 52.4 million. Out of EUR 6 million of the increase in cost of sales, EUR 2.0 million represented the cost of agricultural produce revaluated to fair value as of December 31, 2011 and sold in Q1 2012. The gain from such revaluation in Q4 2011 was EUR 0.3 million.

Another factor behind the rise in the cost of sales was higher raw milk prices. In the first quarter 2012, the Group sold cheese produced from milk collected in the fourth quarter 2011 when average prices in Ukraine were c. 18% higher than in Q1 2011. After the re-introduction of government subsidy for dairy farmers in Ukraine from 1 January 2012, raw milk prices started to drop, ending up in March 2012 22% lower than in December 2011.

As a result, the Group's gross profit was 13% lower in Q1 2012 than in Q1 2011 (EUR 15 million and EUR 17.3 million respectively). The gross margin declined from 27.1% to 22.2%. The Group's management believes that Milkiland will benefit from the decline in raw milk prices which started in Q1 2012 as early as in Q2 2012.

#### **Operating profit and EBITDA**

Selling and distribution expenses grew faster than sales mainly due to the Group's expansion efforts. Integration into agricultural production led to a rise in security and labor costs, while streamlining of the brand portfolio was supported by increased marketing and advertising activities in the WMP segment. As a result, selling and distribution expenses grew by 8% to EUR 5.5 million.

Agricultural operations also contributed to a rise in administrative expenses by 13% after the acquisition of 5 agricultural companies in the second half of 2011.

A decline in the gross profit, as well as rising operating costs contributed to a decrease in the operating profit and EBITDA to EUR 3.4 million and EUR 6.6 million respectively.

In the first quarter, the Group's EBITDA margin of 11% was lower than the average expected for 2012, however, the Group's management expects higher EBITDA margins in summer and fall, when the main volume of dairy is produced and sold. Seasonal improvement in EBITDA margin should also be reinforced by the re-introduced dairy subsidy in Ukraine, as well as re-opening of the Russian market where cheese prices are traditionally higher than in Ukraine.

#### **Profit before tax and net profit**

The above factors contributed to a decrease in the profit before tax from EUR 5.5 million to c. EUR 2.0 million. Net profit declined to EUR 1.9 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 31 March 2012 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the three months ended 31 March 2012 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 May 2012

**A. Yurkevych**

**F.J. Aherne**

**O. Yurkevych**

**V. Rekov**

**P.I. Yokhym**

**W. S. van Walt Meijer**

**G. Heerink**

**Milkiland N.V.**

Condensed Consolidated Interim Financial  
Statements

For the three months ended 31 March 2012

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

(All amounts in euro thousands unless otherwise stated)

	Notes	31 March 2012 (unaudited)	31 December 2011 (audited)	31 March 2011 (unaudited)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	8	31,949	53,410	30,103
Trade and other receivables	9	33,456	28,994	23,672
Inventories	10	25,341	34,686	23,916
Current biological assets	14	3,315	3,422	1,255
Current income tax assets		887	498	260
Other taxes receivable	11	21,191	22,607	19,439
		<b>116,139</b>	<b>143,617</b>	<b>98,645</b>
<b>Non-Current Assets</b>				
Goodwill	12	4,543	4,461	2,151
Property, plant and equipment	13	152,432	155,616	119,797
Non-current biological assets	14	2,553	2,583	932
Other intangible assets	13	337	340	733
Deferred income tax assets		21,079	21,061	28,695
		<b>180,944</b>	<b>184,061</b>	<b>152,308</b>
<b>TOTAL ASSETS</b>		<b>297,083</b>	<b>327,678</b>	<b>250,953</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
				-
Trade and other payables	15	14,541	18,430	14,388
Current income tax liabilities		496	508	428
Other taxes payable	16	1,622	1,861	1,331
Short-term loans and borrowings	17	46,791	67,153	33,172
		<b>63,450</b>	<b>87,952</b>	<b>49,319</b>
<b>Non-Current Liabilities</b>				
Loans and borrowings	17	23,198	28,168	32,559
Deferred income tax liability		43,325	43,874	45,634
Other non-current liabilities		1,823	1,870	438
		<b>68,346</b>	<b>73,912</b>	<b>78,631</b>
<b>Equity attributable to owners of the Company</b>				
Share capital	18	3,125	3,125	3,125
Share premium		48,687	48,687	48,687
Revaluation reserve		56,970	58,320	33,706
Currency translation reserve		(10,568)	(8,134)	(16,461)
Retained earnings		60,962	57,861	48,099
		<b>159,176</b>	<b>159,859</b>	<b>117,156</b>
Non-controlling interests		6,111	5,955	5,847
<b>Total equity</b>		<b>165,287</b>	<b>165,814</b>	<b>123,003</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>297,083</b>	<b>327,678</b>	<b>250,953</b>

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

(All amounts in euro thousands unless otherwise stated)

	Notes	2012 (unaudited)	2011 (unaudited)
Revenue	19	67,681	63,657
Change in fair value of biological assets		(228)	-
Cost of sales	20	(52,404)	(46,375)
<b>Gross Profit</b>		<b>15,049</b>	<b>17,282</b>
Selling and distribution expenses	21	(5,533)	(5,125)
Administration expenses	22	(6,046)	(5,349)
Other expenses, net	23	(21)	111
<b>Operating Profit</b>		<b>3,449</b>	<b>6,919</b>
Finance income		848	353
Finance expenses		(2,060)	(2,110)
Foreign exchange gain/(loss), net		(266)	293
<b>Profit before tax</b>		<b>1,971</b>	<b>5,455</b>
Income tax	24	(106)	(529)
<b>Net profit</b>		<b>1,865</b>	<b>4,926</b>
<b>Other comprehensive income/(loss)</b>			
Exchange differences on translating to presentation currency		(2,392)	(4,573)
<b>Total comprehensive income/(loss)</b>		<b>(527)</b>	<b>353</b>
<b>Profit attributable to:</b>			
Owners of the Company		1,751	4,792
Non-controlling interests		114	134
		<b>1,865</b>	<b>4,926</b>
<b>Total comprehensive income/(loss) attributable to:</b>			
Owners of the Company		(683)	401
Non-controlling interests		156	(48)
		<b>(527)</b>	<b>353</b>
<b>Earnings per share, basic and diluted (in euro cents)</b>	28	<b>5.60</b>	<b>15.33</b>

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

(All amounts in euro thousands unless otherwise stated)

	2012 (unaudited)	2011 (unaudited)
<i>Cash flow from operating activities:</i>		
Profit before taxation	1,971	5,454
Adjustments for:		
Change in fair value of biological assets	228	-
Depreciation and amortization	3,054	2,478
Foreign exchange (gain)/loss	266	(292)
Loss from write off, revaluation and disposal of non-current assets	138	130
Change in provision and write off of trade and other accounts receivable	185	583
Change in provision and write off of unrealised VAT	227	138
Change in provision and write off inventories	140	64
Write off of accounts payable	(23)	(223)
Finance costs, net	1,212	1,757
<b>Operating cash flows before working capital changes</b>	<b>7,398</b>	<b>10,089</b>
<b>Changes in assets and liabilities:</b>		
(Increase)/decrease in accounts receivable	(3,044)	274
Decrease in inventories	8,970	600
(Increase) in current biological assets	(277)	-
Decrease in other taxes receivable	602	262
(Increase)/ decrease in other taxes payable	(559)	183
Increase in accounts payable	(5,100)	(1,344)
<b>Cash used by operations:</b>	<b>7,990</b>	<b>10,064</b>
Interest paid	(1,990)	(2,397)
Interest received	833	353
Income taxes paid	(346)	(282)
<b>Net cash from operating activity</b>	<b>6,487</b>	<b>7,738</b>
<i>Investing activities:</i>		
Proceeds from sale of property, plant and equipment	24	246
Acquisition of property, plant and equipment and biological assets	(446)	(1,075)
Acquisition of subsidiaries, net of cash acquired	(216)	(937)
<b>Net cash from investment activity</b>	<b>(638)</b>	<b>(1,766)</b>
IPO costs paid	-	(782)
Proceeds from borrowings	6,273	6,494
Repayment of borrowings	(33,670)	(17,391)
<b>Net cash from financial activity</b>	<b>(27,397)</b>	<b>(11,679)</b>
Foreign exchange loss	87	(1,947)
<b>Net increase in cash</b>	<b>(21,461)</b>	<b>(7,654)</b>
Cash at beginning of the period	53,410	37,757
<b>Cash at the end of the period</b>	<b>31,949</b>	<b>30,103</b>



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

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company						Non-controlling interests	Total equity
	Share capital	Share premium	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity		
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
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 period	-	-	(4,391)	-	4,792	401	(48)	353
Realised revaluation reserve, net of income tax	-	-	-	(971)	971	-	-	-
Acquisition of subsidiaries and non-controlling interests	-	-	-	13	(105)	(92)	(236)	(328)
Balance at 31 March 2011	3,125	48,687	(16,461)	33,706	48,099	117,156	5,847	123,003
Balance at 1 January 2012	3,125	48,687	(8,134)	58,320	57,861	159,859	5,955	165,814
Total comprehensive income for the period	-	-	(2,434)	-	1,751	(683)	156	(527)
Realised revaluation reserve, net of income tax	-	-	-	(1,350)	1,350	-	-	-
Balance at 31 March 2012	3,125	48,687	(10,568)	56,970	60,962	159,176	6,111	165,287

## **Notes to the consolidated financial statements**

### **1 The Group and its operations**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the three months ended 31 March 2012 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 March 2012.

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2009 the Company was converted into a public limited liability company (N.V.). The address of its registered office is Hillegomstraat 12-14, 1058LS, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.

As at 31 March 2012 the Company is owned by 1, Inc. Cooperatief (holding 73.04% 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 plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2012 to 31 March 2012 the Company had the following direct and indirect subsidiaries and associates:

Name	Location	31 March 2012	31 December 2011
		Effective share of ownership	Effective share of ownership
Milkiland Corporation	Panama	100%	100%
JSC Ostankino Dairy Combine	Russia,	95,25%	95,25%
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%	100%
LLC Molochnivyroby	Ukraine	100%	100%
DE Borznyiyskiy Milk Plant	Ukraine	100%	100%
LLC Moloko-Kraina	Ukraine	100%	100%
LLC Torgovy dim Milkiland	Ukraine	100%	100%
LLC Ukrainian Milk House	Ukraine	100%	100%
LLC Milkiland N.V Krainy	Ukraine	100%	100%
LLC Milkiland N.V	Ukraine	100%	100%
LLC Moloko Polissia	Ukraine	100%	100%
JSC Transportnyk	Ukraine	70,3%	70,3%
LLC Milkiland Agro	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%	100%
LLC Batkivschyna	Ukraine	100%	100%
PE Agro PersheTravnya	Ukraine	100%	100%
ALLC Nadiya	Ukraine	100%	100%
LLC Zemledar 2020	Ukraine	100%	100%
PAE Dovzhenka	Ukraine	100%	-

During the three months ended 31 March 2012, the Group finalized acquisition of agricultural company PAE Dovzhenka (note 5).

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## **2 Operating environment of the Group**

### ***Operating environment in Ukraine***

Ukraine displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. Starting from 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase in household incomes, lower refinancing rates, stabilisation of the exchange rate of the Ukrainian Hryvnia against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Ukrainian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

### ***Operating environment in Russia***

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The macroeconomic instability could be triggered by some external factors, including drop in oil prices in the world market, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

### 3 Summary of significant accounting policies

#### *Basis of preparation and statement of compliance*

This condensed consolidated interim financial information for the three months ended 31 March 2012 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 2011, which have been prepared in accordance with IFRSs.

(a) *Standards, amendments and interpretations to existing standards effective in 2012 but not relevant to the Group:*

- **'Classification of Rights Issues' (Amendment to IAS 32)**, issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. This is not currently applicable to the Group, as it has not made any rights issues.
- **IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'**, effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). This is not currently applicable to the Group, as it does not use debt for equity swaps.
- **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.

(b) *The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:*

- **IFRS 9, 'Financial instruments'**, issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the

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Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group recognised UAH 395 million of losses that relate to equity instruments in other comprehensive income. The Group has not yet decided when to adopt IFRS 9.

- **'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).

The above standards and interpretation in issue but not yet adopted are either not relevant to the Group's operation or are not expected to have a significant impact on Group's future financial reporting.

### Summary of significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2011.

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.

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

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

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

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

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

	US dollar	UAH	RUR
Average for three months ended 31 March 2012	1.3102	10.4655	39.6784
As at 31 March 2012	1.3356	10.6670	39.1707
As at 31 December 2011	1.3916	11.0894	40.8509
Average for three months ended 31 March 2011	1.3673	10.8625	41.4132
As at 31 March 2011	1.4207	11.8625	41.4132

#### **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.



**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

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 Business combinations**

**Acquisitions of subsidiaries** .In 2012 the Group focused on the development of raw milk supply system and acquired 100% shares in agricultural company PAE Dovzhenka.

Due to the fact that the PAE Dovzhenka have has been acquired in first quarter 2012, the fair value of the net assets obtained has not been determined due to the short time period before the period-end close. Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator. As a result provisional goodwill at the amount of EUR 156 thousand has been recognised.

Identifiable assets acquired and liabilities assumed:	PAE Dovzhenka
Cash and cash equivalents	1
Accounts receivable	1
Inventories	88
PPE	130
Biological assets	50
Accounts payable	(20)
Total net identifiable assets	<u>250</u>
Cash paid	216
Payable	190
Fair value of identifiable assets	(250)
Goodwill	<u>156</u>

## 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 comprising 56% (2011: 54%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 41% (2011: 39%) of Group's revenue;
- *Ingredients* 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.

The Board of Directors assesses the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event. As information on segment assets are not reported to the Board of Directors, this is not disclosed in these financial statements.

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

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

	2012			2011		
	Russia	Ukraine	Total	Russia	Ukraine	Total
Total segment revenue	28,210	46,977	75,187	24,415	46,036	70,451
Inter-segment revenue	(7,506)	-	(7,506)	(6,794)	-	(6,794)
<b>Revenue from external customers</b>	<b>20,704</b>	<b>46,977</b>	<b>67,681</b>	<b>17,621</b>	<b>46,036</b>	<b>63,657</b>
 <b>EBITDA</b>	 1,743	 5,224	 6,967	 683	 8,934	 9,617
<b>EBITDA margin</b>	<b>8%</b>	<b>11%</b>	<b>10%</b>	<b>4%</b>	<b>19%</b>	<b>15%</b>
Depreciation and amortisation	760	2,294	3,054	817	1,661	2,478

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

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

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

	2012				2011			
	Cheese & butter	Whole- milk products	Ingredients	Total	Cheese & butter	Whole- milk products	Ingredients	Total
Total segment revenue	42,553	27,820	4,814	75,187	40,906	25,083	4,462	70,451
Inter-segment revenue	(4,930)	-	(2,576)	(7,506)	(6,794)	-	-	(6,794)
Revenue from external customers	37,623	27,820	2,238	67,681	34,112	25,083	4,462	63,657
				-				
EBITDA	4,722	1,909	336	6,967	6,948	1,513	1,156	9,617
EBITDA margin	13%	7%	15%	10%	20%	6%	26%	15%
Depreciation and amortisation	1,383	1,373	298	3,054	1,073	1,198	207	2,478

A reconciliation of EBITDA to profit before tax:

	2012	2011
EBITDA	6,967	9,617
Other segments EBITDA	(326)	(90)
<b>Total segments</b>	<b>6,641</b>	<b>9,527</b>
Depreciation and amortisation	(3,054)	(2,478)
Loss/(gain) from disposal and impairment of non-current assets	(138)	(130)
Finance costs - net	(1,212)	(1,757)
Foreign exchange loss	(266)	293
<b>Profit before tax</b>	<b>1,971</b>	<b>5,455</b>

**7 Balances and transactions with related parties**

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 (revised 2003) "Related Party Disclosures". During the reporting period the company had related party transactions with ultimate shareholder, key management and companies under common control.

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

<i>Entities under common control:</i>	<b>2012</b>	<b>2011</b>
Sales revenue	4,478	549
<i>Ultimate shareholders:</i>	<b>2011</b>	<b>2011</b>
Finance expenses on other borrowings	-	(12)

The outstanding balances due from/(to) related parties were as follows:

	<b>31 March 2012</b>	<b>31 December 2011</b>	<b>31 March 2011</b>
<i>Entities under common control:</i>			
Trade accounts receivable	1,990	855	163
Other accounts receivable	462	31	271

**Key management compensation**

Key management includes Board of directors. The short-term employee benefits paid or payable to key management for employee services is EUR 347 thousand (2011: EUR 273 thousand).

**8 Cash and cash equivalents**

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

	<b>31 March 2012</b>	<b>31 December 2011</b>	<b>31 March 2011</b>
Short term deposits	26,281	27,740	25,024
Cash in bank and cash on hand	5,668	25,670	5,079
	<b>31,949</b>	<b>53,410</b>	<b>30,103</b>

**9 Trade and other accounts receivable**

	31 March 2012	31 December 2011	31 March 2011
Trade accounts receivable	28,719	24,705	20,326
Other financial assets	283	284	256
Allowance for doubtful debts	(2,065)	(1,999)	(2,484)
<b>Total financial assets within trade and other receivables</b>	<b>26,937</b>	<b>22,990</b>	<b>18,098</b>
Advances issued	4,526	3,924	3,981
Other receivables	5,247	5,906	5,041
Allowance for doubtful debts	(3,254)	(3,826)	(3,448)
	<b>33,456</b>	<b>28,994</b>	<b>23,672</b>

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

**10 Inventories**

	31 March 2012	31 December 2011	31 March 2011
Raw and other materials	7,743	11,707	8,480
Finished goods and work in progress	17,309	21,091	15,436
Agriculture produce	289	1,888	-
	<b>25,341</b>	<b>34,686</b>	<b>23,916</b>

**11 Other taxes receivable**

	31 March 2012	31 December 2011	31 March 2011
VAT recoverable	21,094	22,407	19,287
Payroll related taxes	56	53	43
Other prepaid taxes	41	147	109
	<b>21,191</b>	<b>22,607</b>	<b>19,439</b>

VAT receivable as at 31 March 2012 is shown net of provision at the amount of EUR 7,381 thousand (31 December 2011: EUR 7,639 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 28% (2011: 28%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

**12 Goodwill**

	31 March 2012	31 March 2011
Balance at 1 January	4,461	2,117
Acquisitions	156	-
Foreign currency translation	(74)	34
Balance at 31 March	4,543	2,151

The goodwill of EUR 2,275 thousand (2011: 2,117) is a result of acquisition of Ostankino Dairy Combine in January 2008. The provisional goodwill of EUR 2,113 thousand (2011: 2,181) is a result of acquisition of PE Agro Pershe Travnya and ALLC Nadiya in December 2011 and have not been revalued in the first quarter 2012. Provisional goodwill relates predominantly to the leasehold land, which is not reflected in the financial statements of acquired entities. Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator. Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to a Russian and Ukrainian companies, it is translated each year as part of the translation of the foreign operation.

The provisional goodwill of EUR 156 thousand (2011: nil) is a result of acquisition of PAE Dovzhenka in 2012 (note 5).

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

During three months ended 31 March 2012 the Group acquired assets with a cost of EUR 560 thousand (2011: EUR 1,060 thousand), which is mainly production equipment.

**14 Biological assets**

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

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

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

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

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

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

	31 March 2012		31 December 2011	
	Units	Amount	Units	Amount
<b>Current biological assets of animal breeding</b>				
Cattle	3,533	1,862	3,443	1,840
Other		285		420
	<b>3,533</b>	<b>2,147</b>	<b>3,443</b>	<b>2,260</b>
<b>Current biological assets of plant growing</b>	Hectares	Amount	Hectares	Amount
Wheat	3,406	1,018	3,406	1,015
Barley	802	150	802	147
	<b>4,208</b>	<b>1,168</b>	<b>4,208</b>	<b>1,162</b>
Total current biological assets		<b>3,315</b>		<b>3,422</b>
<b>Non-current biological assets</b>	Units	Amount	Units	Amount
Cattle	2,931	2,512	2,827	2,541
Other livestock	-	41	-	42
	<b>2,931</b>	<b>2,553</b>	<b>2,827</b>	<b>2,583</b>

**15 Trade and other payables**

	31 March 2012	31 December 2011	31 March 2011
Trade payables	9,138	10,952	7,682
Wages and salaries payable	1,578	2,009	1,279
Accounts payable for fixed assets	167	49	123
Accrual for audit fees and consulting services	-	91	103
Accruals for bonuses	180	613	1,760
Interest payable	188	268	66
<b>Total financial liabilities within trade and other payable</b>	<b>11,251</b>	<b>13,982</b>	<b>11,013</b>
Advances received	1,345	2,215	1,248
Other accounts payable	509	798	753
Accruals for employees' unused vacations	1,436	1,435	1,374
	<b>14,541</b>	<b>18,430</b>	<b>14,388</b>

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

Financial liabilities are normally settled within 60-days period. The fair values of trade and other accounts payable approximate their carrying amounts.

**16 Other taxes payable**

	31 March 2012	31 December 2011	31 March 2011
VAT payable	738	759	277
Payroll related taxes	700	921	621
Other taxes payable	184	181	433
	<b>1,622</b>	<b>1,861</b>	<b>1,331</b>

**17 Interest bearing loans and borrowings**

	31 March 2012	31 December 2011	31 March 2011
<b>Current</b>			
Interest bearing loans due to banks	45,952	66,290	25,190
	<b>45,952</b>	<b>66,290</b>	<b>25,190</b>
<b>Short-term portion of long-term debt</b>			
Interest bearing loans due to banks	461	475	7,888
Finance leases	378	388	94
	<b>839</b>	<b>863</b>	<b>7,982</b>
<b>Total current borrowings</b>	<b>46,791</b>	<b>67,153</b>	<b>33,172</b>
<b>Non-current</b>			
Interest bearing loans due to banks	22,870	27,730	29,278
Loans from non-financial institutions	-	-	3,092
Finance leases	328	438	189
<b>Total non-current borrowings</b>	<b>23,198</b>	<b>28,168</b>	<b>32,559</b>
<b>Total borrowings</b>	<b>69,989</b>	<b>95,321</b>	<b>65,731</b>

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

	2012	2011
Opening balance	95,321	79,836
Obtained new loans and borrowings	7,435	6,494
Repaid loans and borrowings	(29,092)	(17,391)
Forex exchange gain	(3,675)	(3,208)
Closing balance	<b>69,989</b>	<b>65,731</b>



**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

**8 Share capital**

Share capital as at 31 March is as follows:

	2012		2011	
	Number	EUR 000	Number	EUR 000
<b>Authorised</b>				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
<b>Issued and fully paid up</b>				
<i>Ordinary shares of 10c each</i>				
At beginning of the year	31,250,000	3,125	25,000,000	2,500
Other issued for cash during the year	-	-	6,250,000	625
<b>At end of the year</b>	<b>31,250,000</b>	<b>3,125</b>	<b>31,250,000</b>	<b>3,125</b>

**19 Revenue**

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

	2012	2011
Cheese & Butter	34,772	34,112
Whole-milk products	27,969	25,083
Ingredients	4,940	4,462
<b>Total</b>	<b>67,681</b>	<b>63,657</b>

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

	2012	2011
Russia	45,429	38,282
Ukraine	20,546	22,718
Other	1,706	2,657
<b>Total</b>	<b>67,681</b>	<b>63,657</b>

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

**20 Cost of sales**

	2012	2011
Raw and other materials	34,181	33,336
Wages and salaries	2,772	2,432
Depreciation	2,614	2,134
Transportation costs	2,578	1,864
Gas	2,277	1,683
Electricity	1,064	1,083
Social insurance contributions	870	751
Repairs of property, plant and equipment	679	466
Water	210	146
Other	646	195
Changes in finished goods	4,513	2,285
	<b>52,404</b>	<b>46,375</b>

**21 Selling expenses**

	2012	2011
Transportation costs	2,488	2,399
Wages and salaries	1,249	1,124
Security and other services	792	622
Social insurance contributions	397	378
Marketing and advertising	271	325
Licence fees	74	71
Rental costs	51	54
Depreciation and amortisation	47	28
Other	164	124
	<b>5,533</b>	<b>5,125</b>

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

**22 Administrative expenses**

	2012	2011
Wages and salaries	2,434	1,919
Social insurance contributions	660	598
Consulting fees	506	376
Depreciation and amortisation	393	313
Representative charges	377	457
Taxes and other charges	359	505
Other utilities	232	87
Bank charges	229	304
Property insurance	167	145
Transportation costs	155	231
Security and other services	143	99
Other	123	103
Repairs and maintenance	79	80
Communication	72	58
Rental costs	54	53
Office supplies	39	19
Licence fees	24	2
	<b>6,046</b>	<b>5,349</b>

**23 Other expenses, net**

	2012	2011
Government grants recognised as income	(624)	(501)
Other operating income	(141)	(471)
Gain from write off of accounts payable	(23)	(223)
Penalties	54	97
Loss from write off of inventories	140	63
Loss from disposal of non-current assets	138	130
Change in provision and write off of trade and other accounts receivable	185	583
Change in provision and write off of VAT receivable	227	138
Other expenses	65	73
	<b>21</b>	<b>(111)</b>

**24 Income tax**

	2012	2011
Current income tax	784	467
Deferred income tax	(678)	62
	<b>106</b>	<b>529</b>

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (January-March 2011: 25%, April-December 2011: 23%), Russian profit tax was levied at the rate of 20% (2011: 20%) The profit of seven Ukrainian companies of the Group was subject to single agricultural tax, which is estimated based on the land area and normative valuation of the land. In 2012 the Group has reflected the single tax at the amount of EUR 1 thousand (2011: EUR 2 thousand) in administrative expenses. In 2012 the tax rate for Panama operations was 0% (2011: 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 ended 31 December 2011 is 8%.

**25 Changes in presentation**

As the Group continues to invest in agricultural segment and biological assets became significant, management has reclassified current and non-current biological assets in the statement of financial position as at 31 March 2011 as the separate line items. In the course of preparation of financial statements for the three months ended 31 March 2011 management has revised accounting for fixed production overheads from administration expenses to cost of sales.

Due to insignificance government grants recognised as income have been reclassified from separate line items to other expenses. Effects of reclassifications of financial statements for three months ended 31 March 2011 and as of 31 March 2011 are summarised in the table below:

	As previously reported	Reclassifi- cations	As reclassified
<b>Statement of financial position</b>			
Property, plant and equipment	120,729	(932)	119,797
Non-current biological assets	-	932	932
Inventories	25,171	(1,255)	23,916
Current biological assets	-	1,255	1,255
<b>Statement of Comprehensive Income</b>			
Cost of sales	(44,269)	(2,106)	(46,375)
Administration expenses	(7,455)	2,106	(5,349)
Government grants recognised as income	501	(501)	-
Other expenses, net	(390)	501	111

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## **26 Contingent and deferred liabilities**

### **Litigation**

The Group from time to time participates in legal proceedings. None of them either separately or in aggregate had significant negative effect on the Group.

### **Insurance policies**

The Group insures all significant property. As at 31 March 2012, most of the Group's property is insured.

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

## **27 Capital management policy**

Main objectives of the Group's capital management policy are the improvement of the financial independence and liquidity coefficient, improvement of accounts receivable structure and capital impairment.

Basic capital structure management methods are profits maximization, investment program management, borrowed capital management, use of borrowing costs of different classes.

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the three months ended 31 March 2012 and 2011 no changes were made in objectives, policies and procedures of the capital management.

The Group controls over its capital using the financial leverage coefficient calculated through division of the net debt by the sum of capital and net indebtedness.

The Group has external requirements to the capital:

- Tangible net worth should not at any time be less than EUR 105,000 thousand;
- the ratio of borrowing to EBITDA in respect of any relevant period will not exceed 3.5 to 1;
- EBITDA to interest ratio expenses in respect of any relevant period will not be less than 3.25 to 1.0

Borrowing, EBITDA, interest expenses and tangible net worth shall be calculated and interpreted on a consolidation basis in accordance with the IFRS and shall be expressed in EUR.

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the three months ended 31 March**

(All amounts in euro thousands unless otherwise stated)

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**28 Earnings per share**

	<u>2012</u>	<u>2011</u>
<i>Numerator</i>		
Earnings used in basic and diluted EPS	<u>1,751</u>	<u>4,792</u>
<i>Denominator, in thousand</i>		
Weighted average number of shares used in basic and diluted EPS	<u>31,250</u>	<u>31,250</u>

**29 Subsequent events**

In May 2012 the Group obtained second tranche from Syndicate of banks at the amount of USD 40,000 thousand.