Milkiland

Annual Report

2010

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FOUR YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR ths	**2010**	**2009**	**2008**	**2007**
Revenue	258,495	200,008	270,417	164,939
Cost of sales	(161,299)	(129,975)	(187,531)	(107,911)
Gross profit	**97,196**	**70,033**	**82,886**	**57,028**
Operating income (expense), net	(62,369)	(47,831)	(65,517)	(35,995)
Operating profit	**34,827**	**22,202**	**17,369**	**21,033**
Net finance expense and other non-operating income (expense)	(12,980)	(14,281)	(30,878)	(7,184)
Profit (loss) before tax	21,847	7,921	(13,509)	13,849
Income tax (expense) benefit	147	245	(2,489)	(1,547)
Profit for the year	**21,994**	**8,166**	**(15,998)**	**12,302**
Gain realized from acquisitions	-	-	23,366	-
Net profit (loss)	**21,994**	**8,166**	**7,368**	**12,302**
Other comprehensive income (loss)	8,801	12,929	9,590	(2,764)
Total comprehensive income	**30,795**	**21,096**	**16,958**	**9,538**
Net profit (loss) attributable to equity holders of the parent company	**21,777**	**8,109**	**6,227**	**12,282**
Weighted average common shares outstanding, in thousand	25,445	25,000	14,173	-
Earnings per share, basic and diluted (EUR)	**85.58**	**32.44**	**43.93**	**-**

Consolidated balance sheet as at 31 December

EUR ths	**2010**	**2009**	**2008**	**2007**
Cash and cash equivalents	37,757	6,676	3,181	28,006
Trade and other receivables	22,170	21,787	27,210	25,324
Inventories	27,166	18,866	16,965	18,954
Other current assets	21,279	9,024	4,916	3,929
Total current assets	***108,372***	***56,353***	***52,272***	***76,213***
PPE	126,379	119,843	111,974	57,620
Deferred income tax assets	30,503	5,545	6,989	2,860
Other non-current assets	2,680	2,307	2,401	71
Total non-current assets	***159,562***	***127,695***	***121,364***	***60,551***
Total assets	**267,934**	**184,048**	**173,636**	**136,764**
Trade and other payables	15,529	13,576	19,161	28,810
Short-term loans and borrowings	43,764	30,986	68,679	37,982
Other current liabilities	1,376	838	1,013	1,336
Total current liabilities	***60,669***	***45,400***	***88,853***	***68,128***
Loans and borrowings	36,072	61,949	30,443	36,570
Deferred income tax liability	47,761	25,993	24,837	2,860
Other non-current liabilities	454	496	389	-
Total non-current liabilities	***84,287***	***88,438***	***55,669***	***39,430***
Total liabilities	**144,956**	**133,838**	**144,522**	**107,558**
Share capital	3,125	2,500	2,500	18
Revaluation and other reserves	71,281	18,537	11,284	(681)
Retained earnings	42,441	16,525	6,230	28,682
Total equity attributable to equity holders of the parent company	***116,847***	***37,562***	***20,014***	***28,019***
Non-controlling interests	6,131	12,648	9,100	1,187
Total equity	**122,978**	**50,210**	**29,114**	**29,206**
Total liabilities and equity	**267,934**	**184,048**	**173,636**	**136,764**

Key data, ratios and multiples of the Group as at and for the year ended 31 December

EUR ths	2010	2009	2008	2007
Adjusted EBITDA*	44,312	32,460	29,590	26,762
Net Debt	42,079	86,259	95,941	46,546
EBITDA Margin,%	17.1%	16.2%	10.9%	16.2%
Net Profit Margin,%	8.5%	4.1%	2.7%	7.5%
ROE	17.9%	16.3%	25.3%	42.1%
ROA	8.2%	4.4%	4.2%	9.0%
Market Capitalization	360,656	-	-	-
Enterprise Value (EV)	408,866	-	-	-
EV / EBITDA	9.23	-	-	-
EV / SALES	1.58	-	-	-
Net Debt / Equity	0.34	1.72	3.30	1.59
Net Debt / EBITDA	0.95	2.66	3.24	1.74
Net Debt / Sales	0.16	0.43	0.35	0.28
Total Debt Ratio	0.54	0.73	0.83	0.79
Debt / Equity	1.18	2.67	4.96	3.68
Current Ratio	1.79	1.24	0.59	1.12
Quick Ratio	1.34	0.83	0.40	0.84
P/E	13.48	35.58	-	-
EPS	85.58	32.44	24.91	-

Formulae for calculation of financial indicators

EBITDA	Operating profit (loss) + depreciation and amortization, net of 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 events
NET DEBT	Short-term finance debt + long-term finance debt, net of cash and cash equivalents
EBITDA MARGIN, %	EBITDA/ Revenues
NET PROFIT MARGIN %	Net profit / Revenues
RETURN ON EQUITY (%)	Net Profit / Shareholders equity
RETURN ON ASSETS (%)	Net Profit / Total assets
MARKET CAPITALIZATION	Number of shares at end of financial period multiplied by closing price on last trading day of the financial period
ENTERPRISE VALUE (EV)	Market capitalization + net debt + minority interests
TOTAL DEBT RATIO	(Total current liabilities + total non-current liabilities) / Total assets
CURRENT RATIO	Total current assets / Total current liabilities
QUICK RATIO	(Total current assets - inventories) / Total current liabilities
P/E	Closing price on last trading day of financial year / Earnings per share
EPS	Net profit attributable to equity holders of the parent company / Average number of shares during the financial period

CEO AND CHAIRMAN'S STATEMENT

Dear Consumers, Shareholders, Partners,

Last year the bell rang at Warsaw Stock Exchange and started a new era of Milkiland N.V. as a public company. There were 16 exciting years behind us during which we learned a tremendous amount about how to establish and run a dairy business in our part of the world. Our efforts up to date brought us to be one of the TOP5 players in the CIS dairy market. This has fueled our ambition to build a business that will place Milkiland amongst the most famous global food companies and brands.

We strongly believe that Milkiland has its own convincing answer to the eternal and vital question, how to feed the world? We employ great people and possess good assets to produce and supply our consumers with fresh and natural, nutritious dairy products. Our strategic goal is to develop Milkiland as international company that is acknowledged for its in-depth expertise in dairy – from producing raw milk to the arrival of dairy products at our consumers table. We believe that our expertise means our products will appeal to the tastes of our consumers. This is the advantage that we are constantly developing, ensuring our proprietary products under Milkiland’s brands become our distinguishing winning feature.

In 2010 our flagship brand “Dobryana” became international as we actively introduced it to the Russian dairy market. On the back of this, Milkiland has become the #1 Ukrainian cheese exporter. In addition, we made a major revitalization of our product portfolio, removing more than 20% of underperforming items.

We are happy to state that Milkiland had a strong 2010 in financial terms. The Company increased revenue by 29% and almost got back to its pre-crisis level. This development was accompanied by EBITDA advancing by 37%, while EBITDA margin increased from 16.2% in 2009 to 17.1% in 2010. Milkiland also posted a record net profit of EUR 22 million (2.7 times vs. 2009).

These results were gained despite challenging market conditions, as the consumer purchasing power did not recover quickly enough to get consumption back to growth, and some still sought cheaper substitutes. On top of this, a sharp rise in raw milk prices impeded consumption in the second half of the year and damaged margins of many players. In these tough circumstances, we were pleased to see that our efforts to build consumer loyalty through quality and value for money were not in vain, and demand for our products remained strong.

2011 brings a new set of tasks for Milkiland. We plan to expand our market share in core markets and invest significantly into our brand equity, through development of new products, quality improvements, and promotion. We will focus on the vertical integration of our business, as we aim to create modern milk farms and to unite individual milk suppliers under newly established cooperatives supported by Milkiland, ensuring long term cooperation between Milkiland and its milk suppliers. In addition, this year, we commence major modernization at our Moscow-based Ostankino Dairy Combine and several Ukrainian plants in order to bring them to state-of-the-art production capability.

We will have a number of challenges to overcome this year. The recent spate of mergers and acquisitions will intensify competition. In addition, our volume growth may trigger increase in prices for raw milk in our local markets. Separately, we still have to assess the consequences of newly adopted Ukrainian tax code that brought a number of implications for dairy producers.

Milkiland’s motto: “Say what you will deliver and deliver what you say” is applicable for all the statements we make to our shareholders, consumers, and partners. We are excited by the challenge to fulfill our promises and meet your expectations in full by long term delivery of growth and good financial results.

Sincerely yours,

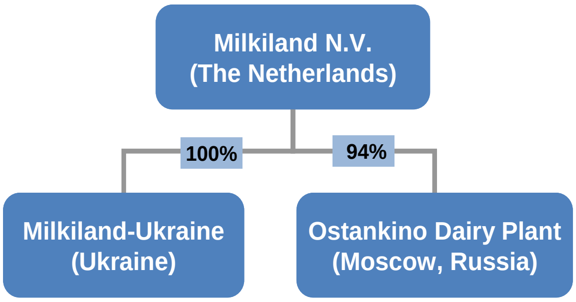
Anatoliy Yurkevych, Chairman of the Board

Vyacheslav Rekov, Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2010

The Group overview

Milkiland is a diversified dairy producer operating in the CIS, one of the largest and dynamic dairy markets globally, with principal operations in Ukraine and Russia. The Group's holding company Milkiland N.V. is incorporated in the Netherlands, while activities in the CIS are conducted through its wholly-owned Ukrainian subsidiary DE Milkiland-Ukraine ("Milkiland-Ukraine") and Russian 94% owned OJSC Ostankino Dairy Combine ("Ostankino").

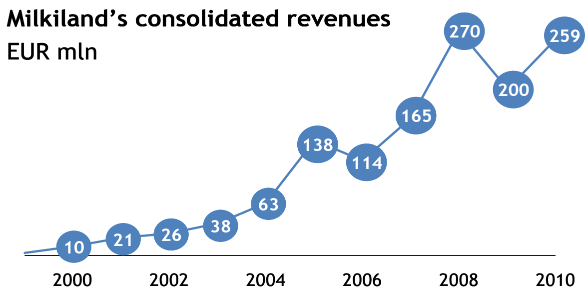


Business of Milkiland-Ukraine includes 10 main dairy plants, extensive milk collection system throughout Ukraine and 4 milk farms. About 80% of the Group's milk is collected and processed in Ukraine. Our Ukrainian business produces a wide range of products that it sells both locally and in overseas markets.

Ostankino is the Moscow-based producer of whole milk products ranking #3 on local Moscow market, the largest regional CIS dairy market. Ostankino also serves as a local distributor for significant part of our exports to Russia.

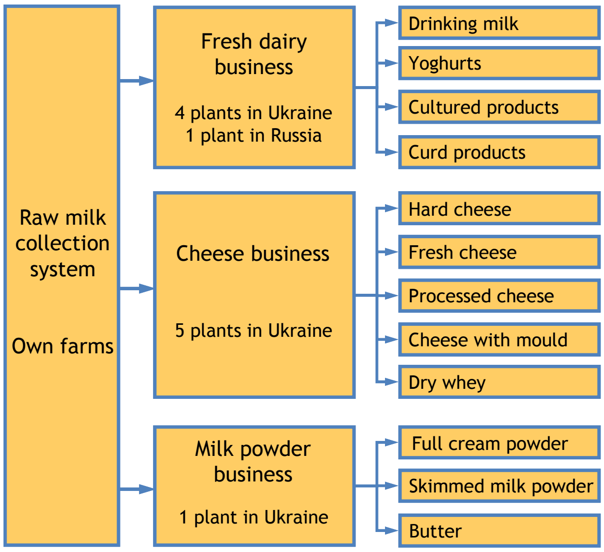
Our dairy plants are able to process up to 1.1 million tonnes of raw milk annually and produce whole milk products, cheese, butter, and dry milk products.

In 2010 Milkiland's consolidated revenues reached EUR 258.5 million, representing a 29% growth over 2009 and an over 35% compound annual growth rate since 2000.



Our Group develops as a diversified milk processor with a high level of vertical integration, in order to secure reliable access to raw milk at acceptable price. This enables us to offer quality products to our customers, while controlling costs and sustaining margins.

Milkiland's business model is outlined in the diagram below:



Our milk collection system is one of the most extensive in Ukraine and consists of over 1800 collection points in most regions. Also, the Group invests in modern dairy farms to bolster raw milk supplies and quality. By the end of 2010 Milkiland accumulated ca. 15 700 hectares of land for the purpose of establishing a large-scale and modern milk farming business.

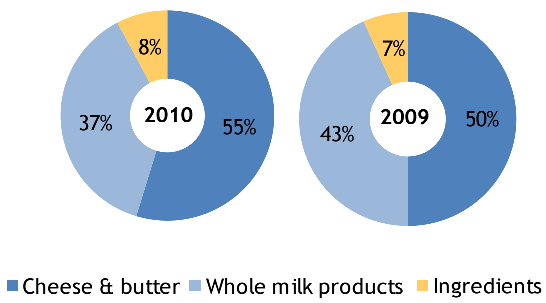
Raw milk collected by the Group is delivered to three core production units: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines based on strategic and tactical considerations.

Whole milk dairy and cheese are Milkiland's core product segments holding together more than 80% in the company's revenues.

Fresh dairy business includes Moscow-based Ostankino and 4 dairy plants in Ukraine, producing a wide range of whole milk products such as drinking milk, kefir, yoghurts, sour cream, ryazhenka, tvorog etc. Our fresh dairy is sold nation-wide in Ukraine and focused on Moscow region in Russia.

Cheese business is located in Ukraine and includes 5 cheese making facilities. Milkiland is one of the leading CIS players in this segment offering a wide variety of cheeses such as hard, fresh, and processed cheese. Also, the Group is successful in introducing high value added specialty products such as cheese with white and blue mould, being one of the very few local players in this attractive segment. We sell our cheese in Ukraine, Russia and Kazakhstan, being one of the major pan-CIS players.

Revenue breakdown by product

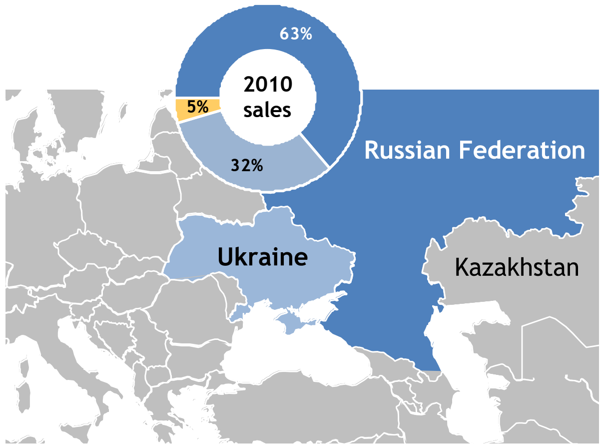


Our milk powder business is one of the largest and most efficient drying facilities in Ukraine, operating mainly in high season, when raw milk is produced in large quantities. Milk powder and butter are sold both locally and abroad to more than 30 countries worldwide.

Our consumer products are marketed under two key brands Dobryana and Ostankinska, targeting a wide audience of families that are keen of healthy diet and natural dairy products. Most of our products are medium priced and widely affordable.

Around one-fifth of Milkiland's products (in value terms) in 2010 were sold under other Milkiland's brands, non-branded, or under private label programs. The share of non-branded products is decreasing, as the Group pursues its branding strategy. B2B sales comprise to around 10% in total revenue.

In terms of revenue, Russia is the largest market for Milkiland contributing to over 63% of the Group's total consolidated revenue in 2010. In Russia, the Group is active in whole milk products and hard cheese.



Sales in Ukraine account for about 1/3 of the Group's revenue and include all range of dairy products. Approximately 5% of sales in 2010 went to other countries, mainly Kazakhstan.

Key Products, Production and Sales

According to UN Food and Agriculture Organization (FAO), global dairy market has one of the most significant upward implications among the other food markets, with a 30% growth forecast in the next 10 years. The key growth drivers are demands from Asian countries and Russia. In 2010, global dairy production reached 710 million tons, representing a 1.7% increase over 2009.

We define Milkiland's home market as former Soviet Union region, namely Russia and Ukraine. This is one of the largest food markets globally, ranking No.4 after EU, USA, and India, and a very dynamic one with strong growth fundamentals.

Our home market can be described by the following key theses:

- Over 190 million local population;
- over EUR 12 billion consumption in wholesale prices in 2010;
- two-digit average annual growth rate (in value) since the year 2000;
- established traditions of dairy consumption, as in Soviet times our people consumed almost twice as much dairy as now;
- fragmented local dairy supply, especially in cheese segment; significant import volumes of cheese, butter and milk powder in Russia;
- lack of strong local brands;
- access to quality raw milk is a major challenge for local players.

Milkiland is active in all main segments of dairy market. Contrary to many players focusing on a certain market segment, we welcome diversification, as we believe additional flexibility across the product line helps to manage prices fluctuation, both in raw materials and end products.

We allocate our product portfolio into three main groups based mainly on consumer base, marketing and logistics:

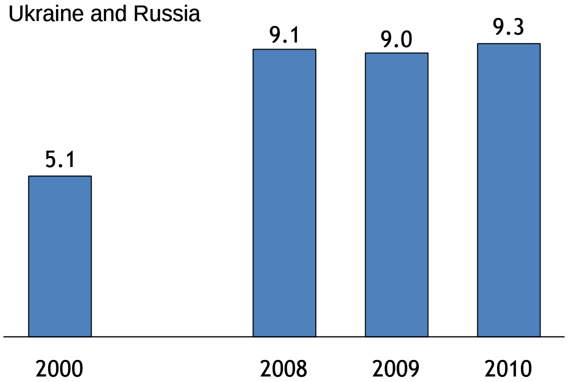
- Whole milk product group (white palette) includes all types of packaged fresh dairy with relatively short shelf life;
- Cheese and butter group (yellow palette) are in general longer shelf life consumer products that could be sold in package, or repackaged in retail outlets, or by weight;
- Ingredients are mainly B2B dairy products sold in bulk such as skimmed milk powder, full cream powder, dry whey etc. Also, in this segment we include agricultural products of Milkiland's farms sold to third parties.

Our core strategic product groups are whole milk products and cheese where we see the most significant growth potential. Butter and milk powder are opportunistic products that we are willing to produce for the purposes of diversification and flexibility, in periods when prices are attractive, and there is a surplus of raw milk in the market.

Whole Milk Products Segment

Whole milk dairy is the largest and the most diverse dairy segment in the CIS region, estimated in wholesale prices at over EUR 6 billion in 2010. The segment includes a variety of products such as drinking milk and highly popular cultured products (sour cream, kefir, ryazhenka etc.), and also curd based snacks (tvorog, curd desserts etc.). Yoghurts are a relatively new product to the market, but their consumption has been developing.

Consumption of whole milk products, mt
Ukraine and Russia



Source: Rosstat, Derzhkomstat, Company estimations

Consumption of whole milk products in the CIS almost doubled since 2000 in volume terms, and during the past two years remains stable, as CIS countries overcome crisis aftereffects.

Year 2010 proved to be one of the most challenging for the CIS whole milk product companies over the past decade. Abnormal summer temperatures drove milk prices to record highs and imposed an unpleasant dilemma on players, forcing them either to squeeze margins in order to meet demand, or cease production. Consumption growth that took place in the beginning of 2010 was negatively affected. Nevertheless, the overall consumption volume increased compared to 2009, according to Rosstat and Derzhkomstat preliminary data.

Milkiland's whole milk segment in 2010 has undergone major structural improvements towards higher value-added products. We removed a number of high-volume and unprofitable positions in drinking milk category and developed our cultured products and yoghurts.

We continued to develop in our newly introduced products. Our thermostatic dairy sales doubled last year and continue to grow quickly; this is a category where Milkiland has pioneered in its markets, and we plan to develop it into one of our cornerstone products. Also, whey drinks introduced in 2010 are growing and promise to become a sizeable category in the next years.

Whole milk dairy is one of the most competitive segments in the CIS, with a number of global players offering their best products. We also invest in our brands. Our core brand Dobryana strengthened its positions in Russia and Ukraine on a backdrop of sluggish demand in both countries.

As a result, our total revenues in the fresh dairy segment grew by 12% and amounted to EUR 97 million in 2010. The segment's EBITDA slightly decreased compared to 2009 – from EUR 7.9 million to EUR 7.8 million, reflecting margin squeeze (8.0% vs 9.2%) caused by a spike in raw milk prices in the second half of 2010.

The share of fresh dairy in the Group's consolidated revenues decreased from 43% in 2009 to 38%, as other segments, notably cheese, demonstrated higher growth.

In terms of market position, Milkiland is one of the largest players in the CIS after Wimm-Bill-Dann and Danone-Unimilk. Our Ostankino Dairy Combine is No.3 player on Moscow market, the largest regional market consuming over 1.5 million tons of fresh dairy annually. In Ukraine, Milkiland is top-10 player, particularly strong in the northern regions of Ukraine where its market share is over 25%.

Despite difficult years of 2009 and 2010, whole milk dairy segment remains our strong strategic priority, as we see high growth potential here. For instance, in 2009, per capita packaged drinking milk consumption in Russia and Ukraine was 31 kg and 16 kg, respectively, while in Poland and Hungary it stands at more than 70 kg; in Romania – about 100 kg, according to Eurostat.

According to our estimations, up to 40% of fresh dairy consumption in our countries still falls to home-made products. We are certain that such informal consumption will diminish in favor of industrially processed dairy, thus being significant growth driver in our markets.

We believe that we have good assets in right places both in Russia and Ukraine. Our Ostankino is uniquely located to serve Moscow population with fresh short shelf life dairy. Milkiland's Ukrainian whole milk plants are also favorably positioned nearby large cities such as Kyiv, Lviv, Kharkiv and Krivoy Rog.

In order to fully benefit from our favorable location and expertise, in 2011 we will target our efforts at introducing new products to the market. Our R&D department has been developing a number of new healthy products, including high value-added probiotic dairy.

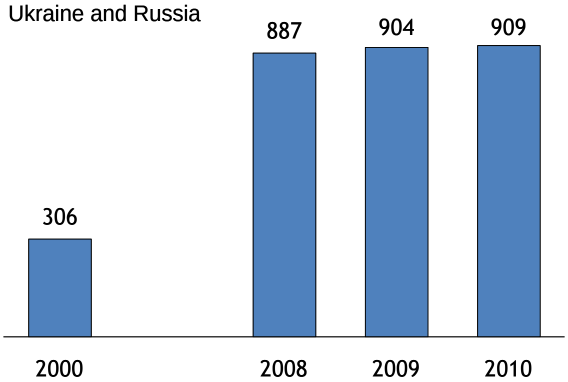
Cheese and Butter Segment

Cheese is the second largest dairy market in the CIS after whole milk products, approaching EUR 3 billion in 2010, based on our estimations.

The majority of hard cheese types, such as *rossiyskiy* and *gollandskiy*, date back to Soviet times and remains the most popular to date. Processed (melted) cheese is also a significant segment with strong historic flavour. New products, such as fresh cheese and mould cheese, were introduced to our markets fairly recently, and are the fastest growing categories, though their share in overall consumption is not yet significant.

Cheese is a growing dairy segment in the CIS, having already surpassed Soviet times consumption level and almost tripled in volume since 2000. Cheese has already become an essential diet to our people.

Consumption of cheese products, kt
Ukraine and Russia



Source: Rosstat, Derzhkomstat, Company estimations

After the crisis of 2008 the growth has suspended, reflecting lower purchasing power of population. Although Russian demand has been the key driver for cheese exports from Ukraine and the EU, competition between cheese players has significantly intensified, in order to win the consumers' loyalty. High farm gate milk prices in 2010 also put a challenge on local cheese makers, as margins became quite difficult to sustain in such environment.

However, 2010 was quite successful for Milkiland. We are proud to be one of the leading CIS cheese producers, offering probably the widest range of products to our consumers. Our Dobryana brand has earned a good reputation and is one of the largest cheese brands in the CIS in terms of revenues.

The structure of Milkiland's cheese sales has improved significantly, following our strategy of withdrawal from low-profitable bulk cheese segment. While the sale volumes were essentially the same as in 2009, the share of branded sales increased, contributing both to segment revenue and margins. Average cheese price increased significantly, especially in Ukraine where Milkiland has become the leading player in the upper-middle price segment.

We have developed a number of innovative products in-house that became a foundation to our success. In 2005, Milkiland introduced King Arthur cheese that over 5 years turned into our leading product. We are one of a few local players offering blue and white mould cheese; our sales in this category in 2010 increased by 80% and set for further aggressive growth.

In butter category, we sold packaged butter under our consumer brands, and monolith butter for B2B customers and retailers.

As a result of our sales and marketing efforts in 2010, Milkiland's cheese & butter segment revenues advanced by 41% to EUR 141.4 million. Milkiland has become the largest Ukrainian cheese exporter with export sale revenue exceeding EUR 90 million. Cheese & butter segment EBITDA has also improved significantly, to EUR 33.8 million, representing a 46% annual increase. EBITDA margin improved from 23.1% in 2009 to 23.9% in 2010.

Our market position in the segment of branded hard cheese has improved both in Ukraine and Russia. Also, we are leading player in Ukrainian mould cheese segment holding share of about 15%, according to company estimations.

Our long term view on cheese market in the CIS is very bullish, as we see significant growth potential. Per capita consumption of 4-5 kg of hard cheese in the CIS region trails times behind the respective levels of Central Europe. Having observed strong growing demand for cheese in the past decade, we are positive that the growth will resume as soon as population's income recovers from the crisis of 2008. We expect that new cheese categories will contribute significantly to the growth. Also, we anticipate strong demand for new types of hard cheese, as the level of sophistication of CIS consumers will advance.

We feel particularly strong in cheese segment and plan to develop significantly over next years, both in terms of market share and product offering. Our successful track record in marketing cheese products suggests that Milkiland is set to become a clear market leader in this segment within the medium term.

On the top of attractive market growth prospects, the fragmented industry structure offers attractive consolidation opportunities. Currently majority of volume supply comes from hundreds of small local players that emerged in booming phase. Now such these players are facing significant competitive challenges, as they are less able to meet growing consumers' sophistication, to develop and support brands, and cannot compete for raw milk with large producers. We expect significant M&A activity in cheese segment in the few years and plan to take part as well.

Ingredients Segment

Our strategy of diversification and close integration with raw milk suppliers suggests presence in other dairy categories, such as milk powder and other B2B products made from milk. Milkiland's sales in these categories may vary significantly from year to year, depending on global commodity prices for skimmed milk powder, whole milk powder, and butter. Usually Milkiland uses high season of raw milk surplus to dry milk in order to sell it throughout the year.

In ingredients segment, we mainly sold dry whey, a byproduct of cheese production. Our drying capacities for skimmed milk powder and whole milk powder had little use due to low profitability of these products for Milkiland last year. In 2010, Milkiland also sold some amount of commodity agriculture products produced by our farms and not used for Milkiland's internal purposes.

In 2010 our sales of ingredients amounted to EUR 20.1 million, an increase of 50%, mainly due to higher prices. These sales contributed EUR 2.7 million of EBITDA, representing close to 14% EBITDA margin.

According to the Foreign Agricultural Service of the US Department of Agriculture, during 2010 prices of such commodities as butterfat, skimmed milk powder and whole milk powder were at significantly higher levels than in 2009. For instance, prices for SMP demonstrated a persistent upward run starting from an average of $2,750/MT FOB (Oceania) in February 2010 to $3,550 in May and, after a slight seasonal correction, to a February 2011 price of around $3,850/MT FOB. However, due to record high local raw milk prices in Russia and Ukraine, production of milk powder and butter for exports was not economically viable for Milkiland for the most part of the year 2010.

Globally, the demand for commodity dairy products is rising, as East Asian countries are actively introducing dairy diet to their population, though cannot develop sufficient local supply due to unfavorable conditions for dairy farming. GDP growth in Asia and Oceania is forecasted to increase by 2-3% annually over the next years, thus implying strong imports demand for milk powder. The world's main exporters, such as New Zealand and Argentina, are already planning rump-up in 2011 milk production by approximately 10% in order to respond to the growing demand from Asia.

In addition, strategic stocks of milk powder are at their lows in major countries such as United States. This should add to demand worldwide.

We believe these developments are beneficial for Milkiland, and we expect to increase our revenues from milk powder over next years.

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2010 and 2009 in thousands Euro.

Selected financial data

	2010	2009
I. Revenues	258,495	200,008
II. Operating profit	34,827	22,202
III. Profit (loss) before tax	21,847	7,921
IV. Net profit (loss)	21,994	8,166
V. Cash flows provided by (used in) operating activities	14,553	8,724
VI. Cash flows used in investing activities	(13,807)	(2,045)
VII. Cash flows (used in) provided by financing activities	30,127	(2,918)
VIII. Total net cash flow	31,285	3,495
IX. Total assets	267,934	184,048
X. Current liabilities	60,669	45,400
XI. Non-current liabilities	84,287	88,438
XII. Share capital	3,125	2,500
XIII. Total equity	122,978	50,210
XIV. Weighted average number of shares	25,445,205	25,000,000
XV. Profit (loss) per ordinary share, EUR cents	85.58	32.44

Income statement

Summary statement of comprehensive income, '000 EUR

	2010	2009
Revenue	258,495	200,008
Cost of sales	(161,299)	(129,975)
Gross profit	97,196	70,033
Operating income (expense), net	(62,369)	(47,831)
Operating profit	34,827	22,202
Net finance expense and other non-operating income (expense)	(12,980)	(14,281)
Profit (loss) before tax	21,847	7,921
Income tax (expense) benefit	147	245
Net profit (loss)	**21,994**	**8,166**
Other comprehensive income (loss)	8,801	12,929
Total comprehensive income	**30,795**	**21,095**
Net profit (loss) attributable to equity holders of the parent company	**21,777**	**8,109**
Weighted average number of shares (in millions), as of December 31	25.445	25.000
Earnings per share, basic and diluted (EUR cents)	**85.58**	**32.44**

Revenue

In 2010, the Group's revenue grew 29% to EUR 258.5 million, owing mainly to price developments and an improved product mix. While 20% of the least profitable SKUs were eliminated from the product portfolio, average prices for dairy products rose in all business segments, reflecting changes in sales structure and higher input costs.

The following table sets forth an overview of the revenue generated by the Group in 2009 and 2010 by product group.

Breakdown of the Group's consolidated revenue by product in 2010-2009

	2010		2009		2010 vs. 2009	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	141,405	54.7%	99,978	50.0%	41,427	41.4%
Whole milk products	97,018	37.5%	86,687	43.3%	10,331	11.9%
Ingredients and other	20,072	7.8%	13,343	6.7%	6,729	50.4%
Total	**258,495**	**100.0%**	**200,008**	**100.0%**	**58,487**	**29.2%**

In terms of revenue, sales of cheese and butter grew 41% y-o-y to EUR 141.4 million and represented 55% of the total consolidated revenue in 2010 vs. 50% in 2009. Such an increase in revenue from cheese sales happened primarily due to sales mix optimization and favorable pricing situation in the both key regional markets, Russia and Ukraine. In Ukraine, cheese prices of the Group gained the most resulting from an improved product mix, and also as a reaction to high raw milk prices caused by the unusually hot summer weather. In Russia, the growth was also significant, though more restrained than in Ukraine.

In volume terms, cheese sales were stable. For more information on cheese and butter production and sales, refer section *Key Products, Production and Sales*.

Sales of whole milk products represented 38% of the total consolidated revenue in 2010 vs. 43% in 2009. Revenue generated by sales of whole milk products grew 12% y-o-y to EUR 97 million on a back of higher average product prices. In 2010, the average price across the whole range of the Group's whole milk products grew compared to 2009. The positive effect of the favorable markets was partially offset by lower-than-a-year-ago demand and a decrease in sales volumes. For more information on whole milk production and sales, refer section *Key Products, Production and Sales*.

Cost of sales

The Group's consolidated cost of sales grew 24% to EUR 161 million. The main cost driver was an increase in expenses for raw milk.

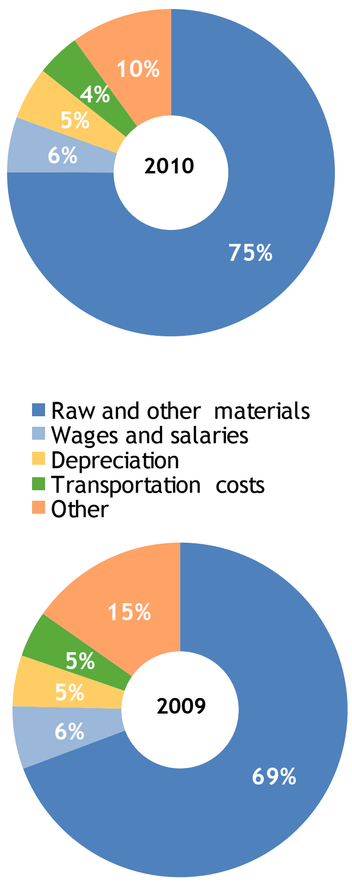
Year 2010 was a year of record high dairy prices in the CIS. Low supply, resulted by the summer draught, caused farm-gate milk prices to skyrocket in August and September by 33% y-o-y in Russia and 55% y-o-y in Ukraine. This was the period of tough testing of processors' margins. Though milk prices slipped down in late 2010, December 2010 prices were still higher than in January by 16% in Ukraine and 27% in Russia.

Global market also faced the same trend. Reviving post-crisis demand for dairy products caused a sharp rise of farm-gate milk prices in the key production regions by the end of 2010: by 13% in the US, 19% in EU and by 29% y-o-y in the world's major dairy exporter, New Zealand.

In this situation, Russian and Ukrainian dairy producers were challenged either to cut production or translate the rising inputs costs into the prices for final product. As a result, by October 2010 dairy prices were, together with sugar, the leading food contributors (30-45%) to consumer price indexes in our countries. However, after a spike dairy prices fell by the end of the year, resulting in more moderate annual price increase of 20-25%, depending on region and product.

Milkiland's cost of raw and other materials (which is mainly milk) increased from EUR 90.1 million to EUR 121.1 million, resulting in a 75% share in total COGS and a 47% share in revenues.

The Group's cost of sales structure in 2009-2010



Labour costs grew from EUR 7.9 million to EUR 8.8 million as a response to growing minimal wage set by the government. In Ukraine, where most of our production workforce is located, minimal wages were raised by c. 33% y-o-y on average.

Breakdown of the Group's cost of sales in 2010-2009, '000 EUR

	2010		2009	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	121,049	46.83%	90,055	45.03%
Wages and salaries	8,791	3.40%	7,883	3.94%
Depreciation	8,396	3.25%	6,405	3.20%
Transportation costs	6,921	2.68%	5,810	2.90%
Gas	5,871	2.27%	5,457	2.73%
Other	10,271	3.97%	14,365	7.18%
Total	**161,299**	**62.40%**	**129,975**	**64.98%**

Gross profit
In 2010, Milkiland's gross profit grew 39% y-o-y to EUR 97.2 million. The Group managed to mitigate unfavorable raw milk price development by optimizing sales mix, increasing final products' prices, and improving production efficiency. As a result, Milkiland's gross profit margin advanced from 35% in 2009 to 38% in 2010.

Selling and distribution expense
The Group's selling and distribution expenses increased moderately from EUR 18.7 million in 2009 to EUR 20.4 million in 2010 and represented 7.9% of the consolidated revenue in 2010 vs. 9.3% in 2009. Transportation costs, the major component (41% of the selling and distribution expense in 2010), fell by 8% y-o-y from EUR 9.1 million to EUR 8.4 million, resulting from logistics improvements in Russian operations.

Milkiland's marketing and advertising expenses in 2010 grew by 58%, from EUR 1.9 million to EUR 3.0 million, reflecting the Group's intensifying efforts in promoting its brands and keeping up with competition.

An increase in labor costs due to a rise in sales and a consecutive rise in payments to sales personnel also contributed to an increase in the selling and distribution expense.

Administrative expense
The Group's overheads grew 33% to EUR 31.6 million and represented 12.2% of the consolidated revenue in 2010 (11.9% in 2009). Such an increase was primarily due to a growth in labor costs. In 2010 the company paid bonuses to the management for performance in 2009 and made an accrual for bonuses for 2010, which added significantly to administrative expenses.

Other expenses, net
Other expenses grew 88% to EUR 10.7 million due to an increase in provision for VAT receivable as a result of a significant increase in VAT receivable balance to be reimbursed by the Ukrainian Government.

Operating profit and EBITDA
All the above factors contributed to a 57% rise in the Group's operating profit to EUR 34.8 million and to a 37% increase in the consolidated EBITDA to EUR 44.3 million. EBITDA margin constituted 17.1% in 2010 vs. 16.2% in 2009.

Finance expense
The Group's finance expense decreased by 9% to EUR 12.9 million in 2010 compared to EUR 14.2 million in 2009. This decrease was mainly due to repayment of the most expensive loans in 2010. Net cash outflows from repayment of borrowings during 2010 amounted EUR 20.1 million.

Profit before tax and Profit for the year
As a result of positive developments in operation efficiency and finance cost cutting, the Group's profit before tax grew 2.76 times y-o-y from EUR 7.9 million in 2009 to EUR 21.8 million in 2010. The Group's net profit for the year grew 169% to EUR 22.0 million. The net profit margin more than doubled and reached 8.5% in 2010 vs. 4.1% in 2009.

Financial Position

Summary balance sheet as at December 31, ‘000 EUR

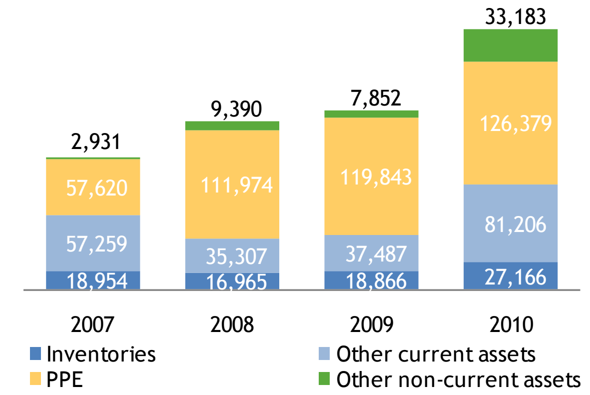
	2010	2009
Cash and cash equivalents	37,757	6,676
Trade and other receivables	22,170	21,787
Inventories	27,166	18,866
Other taxes receivable	21,061	8,744
Current income tax assets	218	280
Total current assets	***108,372***	***56,353***
PPE	126,379	119,843
Deferred income tax assets	30,503	5,545
Other non-current assets	2,680	2,307
Total non-current assets	***159,562***	***127,695***
Total assets	**267,934**	**184,048**
Trade and other payables	15,529	13,576
Short-term loans and borrowings	43,764	30,986
Other current liabilities	1,376	838
Total current liabilities	***60,669***	***45,400***
Loans and borrowings	36,072	61,949
Deferred income tax liability	47,761	25,993
Other non-current liabilities	454	496
Total non-current liabilities	***84,287***	***88,438***
Total liabilities	**144,956**	**133,838**
Share capital	3,125	2,500
Share premium	48,687	-
Revaluation and other reserves net	22,594	18,537
Retained earnings	42,441	16,525
Total equity attributable to equity holders of the parent company	***116,847***	***37,562***
Non-controlling interests	6,131	12,648
Total equity	**122,978**	**50,210**
Total liabilities and equity	**267,934**	**184,048**

Capital structure and solvency analysis information

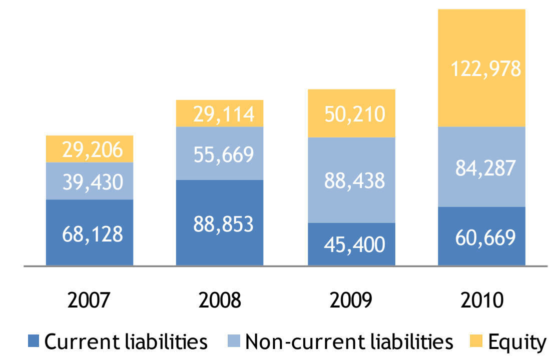
	2010	2009
Total debt ratio	0.54	0.73
Debt to equity ratio	1.18	2.67

	2010	2009
Net debt/EBITDA	0.95	2.66
Net debt/sales	0.16	0.43

Assets structure in 2007-2010, '000 EUR



Equity and liabilities of the Group in 2007-2010, '000 EUR



Assets

The Group's total assets grew 46% from EUR 184.0 million as of December 31, 2009, to EUR 267.9 million as of December 31, 2010.

Current assets almost doubled due to a more-than-5-fold increase in cash and cash equivalents after the IPO of the Group's holding company Milkiland N.V. on the Warsaw Stock Exchange in December 2010. A 136% rise in the other taxes receivable to EUR 21.3 million also contributed to an increase in current assets. This amount represents the VAT refunds receivable from export sales.

Non-current assets increased less considerably, by 25% to EUR 159.6 million mainly due to an increase in deferred tax assets by 25 million. The growth of deferred tax assets was mainly related to intra-group advances received, made for tax optimizations and financing purposes within the Group. An increase in PPE from EUR 119.8 million to EUR 126.4 million was due to addition of new PPE worth EUR 6.2 million, more than half of which was production equipment, and effect from revaluation of assets for EUR 2.5 million.

Current assets represented 40% of the total assets, non-current assets - 60% (31% and 69% respectively as of December 31, 2009).

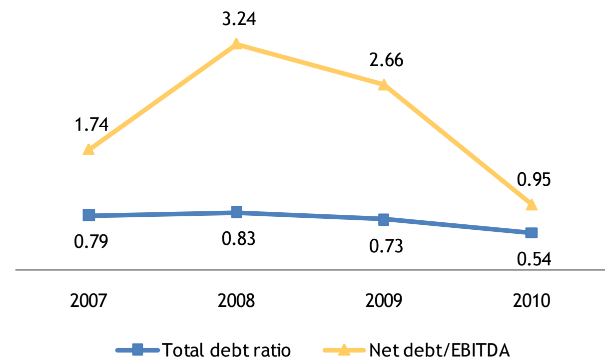
Liabilities and equity

The Group's liabilities grew 8% from EUR 133.8 million as of December 31, 2009, to EUR 145.0 million as of December 31, 2010. Current liabilities grew 34% to EUR 60.7 million, non-current liabilities decreased by 5% to EUR 84.3 million.

One of the important trends in the financial standing of the Group in 2010 was a significant rise of the Group's equity, which more than tripled to EUR 116.8 million on a back of a placement of the shares of Milkiland N.V. during its IPO on the WSE. For more detailed information refer to section *Material Factors and Events – Admission to Warsaw Stock Exchange and Disposal of IPO Proceeds*.

In 2010, the Group's management focused its efforts on further consolidation of Milkiland's assets by means of an increase in the stakes in key production subsidiaries keeping in mind the creation of the maximum value for the Group's shareholders. For more detailed information refer to section *Material Factors and Events – Acquisition of Subsidiaries*. As a result, the non-controlling interests in the Balance Sheet were reduced by c. 52% to EUR 6.1 million.

Debt ratios of the Group in 2007-2010



The Company's IPO has strengthened the Group's balance sheet by decreasing the Group's indebtedness. The Group's total debt fell by 14% from EUR 92.9 million to EUR 79.8 million after the Group repaid the most expensive loans using some part of the IPO proceeds. Net debt of the

Group fell 51% and stood at EUR 42.1 million as of December 31, 2010. Total Debt Ratio constituted 0.54 vs. 0.73 in 2009. Net Debt/EBITDA ratio improved from 2.66 to 0.95.

For more information on loans and borrowings contracted by the Group, refer to *Note 15 to the Consolidated Financial Statements* and section *Material Factors and Events*.

Current liabilities represented 23% of the total equity and liabilities, non-current liabilities 31%, and equity 46% as of December 31, 2010 (25%, 48%, and 27% respectively in 2009).

A sharp rise in the Group's net profit led to an increase in its ROE from 16% to 18%. At the same time, ROA improved from 4% to 8%. The Group also reports improvements in its liquidity, which is reflected in better quick ratio, current ratio and cash ratio.

A significant rise in the Group's current assets following the more-than-5-fold increase in cash and cash equivalents led to an improvement in the working capital, which grew more than 4 times from EUR 11.0 million to EUR 47.7 million.

Balance sheet items and liquidity analysis

Ratios	Definitions	2010	2009
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	32.50	32.69
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	23.50	27.81
Average payment period, days	Average trade payables to cost of sales times number of days in the period	19.79	27.60
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	36.21	32.91
Working capital, '000 EUR	Current assets less current liabilities	47,703	10,953
Current ratio	Current assets to current liabilities	1.8	1.2
Quick ratio	Current assets less inventories to current liabilities	1.3	0.8
Cash ratio	Cash and cash equivalents to current liabilities	0.3	0.1
ROE, %		18%	16%
ROA, %		8%	4%

Summary cash flow statement

	2010	2009
Cash flow from operating activities:		
Operating cash flows before working capital changes	52,781	34,673
Changes in assets and liabilities, net	(25,421)	(10,568)
Cash provided by (used in) operations:	27,360	24,105
Net cash from operating activity	**14,553**	**8,724**
Investing activities:		
Proceeds from sale of property, plant and equipment	60	145
Acquisition of property, plant and equipment	(6,327)	(2,190)
Acquisition of associates, subsidiaries and non-controlling interest, net of cash acquired	(7,540)	-
Net cash from investment activity	**(13,807)**	**(2,045)**
Financing activities:		
Proceeds from IPO, net	50,094	-
Proceeds from borrowings	47,118	20,277
Repayment of borrowings	(67,263)	(22,625)
Net cash from financial activity	**30,127**	**(2,918)**
Effect of exchange rate changes on cash and cash equivalents	234	(266)
Net increase in cash	**31,107**	**3,495**
Cash at beginning of the period	6,650	3,181
Cash at the end of the period	**37,757**	**6,676**

Net cash provided by operating activity grew 67% to EUR 14.6 million. Cash used in investment activities grew from EUR 2.0 million to EUR 13.8 million, of which more than EUR 7.5 million was used to increase the Group's interest in subsidiaries. For more detailed information refer to section *Material Factors and Events – Acquisition of Subsidiaries*. Cash provided by financing activity totalled to EUR 29.9 million, as a result of IPO proceeds and repayment of borrowings in the amount of EUR 20.1 million. Net cash at the end of the period surged 466% to EUR 37.8 million. Milkiland relies on cash provided by operating activities as a primary source of liquidity in addition to debt and equity issuances in the capital markets. Based on the current operating performance and liquidity position, the Group believes that cash provided by operating activities and available cash balances will be sufficient for working capital, capital expenditures, interest payments and scheduled debt repayment requirements for the next 12 months and the foreseeable future.

Key Investments in 2010 and the Sources of their Financing

In 2010, the Group's investments were addressed to a continued consolidation of its key production assets by acquisition of non-controlling interest in Ostankino, as well as by acquisition of farms for its agricultural operations. We also invested into the new machinery and equipment for the dairy processing operations.

The following table represents the Group's key investments in 2007 through 2010 by type.

Key investments in 2007 through 2010, thousands of Euros

	2010	2009	2008	2007
Property, plant and equipment	6,327	2,190	5,835	24,357
Acquisition of associates and subsidiaries	7,540	-	27,048	7,389
Total investments	**13,867**	**2,190**	**32,883**	**31,746**

Last year's investments were financed mainly from operational cash flows and partially by IPO proceeds in December 2010. For more details on the Company's IPO and acquisitions in 2010, refer to section *Material Factors and Events*.

Investment Plans for 2011 and the Sources of their Financing

The Group's 2011 plan envisages an increase in milk processing volumes and product sales, allowing for greater market power and economy of scale. One of Milkiland's priorities is building of a complete dairy supply chain in line with its "From Farm to Fork" paradigm, ensuring delivery of high quality products to consumers.

Our 2011 downstream integration initiatives include building of two new modern milk farms of over 6,000 cows capacity in total. This will allow securing of some amount of high quality raw milk supply, in order to produce higher value added products.

Also, the Group will pursue its modernization program of upgrading Okhtyrsky Cheese Plant and implementing state-of-the-art fresh dairy production technologies at Ostankino.

The Group's investment program for 2011 amounts to about EUR 25 million, two thirds of the funds to be spent on production upgrade.

Current financial situation allows the Group to fulfill its investment plan from operating cash flows and outstanding cash reserves.

Basis of Preparation

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

Shareholder Structure

As of December 31, 2010, the following shareholders provided information concerning direct or indirect (through subsidiaries) ownership of at least 5% of the total votes at the General Shareholders Meeting of Milkiland N.V.

Shareholder structure of Milkiland N.V. as of December 31, 2010

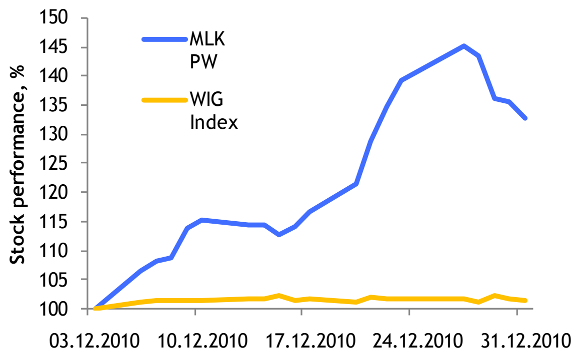
Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,750,000	72.8%	22,750,000	72.8%
Other shareholders	8,500,000	27.2%	8,500,000	27.2%
TOTAL	**31,250,000**	**100.0%**	**31,250,000**	**100.0%**

Share Price Performance

Since admission to trading at the Warsaw Stock Exchange on December 6, 2010, shares of Milkiland N.V. outperformed the main Warsaw market index WIG on positive sentiments about the Group's prospects. By the year end, Milkiland shares added 33% to close at PLN 44.84 per share, while the WIG index remained essentially flat. As a result, on December 31, 2010, Milkiland was trading with Price/Earnings'10 and EV/EBITDA'10 of 13.5 and 9.2 respectively.

The Milkiland shares were added to the WIG and WIG-food indices on December 8, 2010.

Share price performance of Milkiland N.V.



Source: Bloomberg

Milkiland N.V. significant stock quotation data, 2010

Opening price (PLN)	33.78
Highest trading price (PLN)	50.00
Lowest trading price (PLN)	33.78
Closing price (PLN)	44.84
Closing price (EUR)	11.32
Stock performance since IPO (absolute)	+32.7%
Stock performance since IPO (relative to WIG)	+31.4%
Common shares outstanding (million)	31.25
EPS (EUR cents)	85.58
Price / earnings (P/E) as of December 31	13.2x

Source: Bloomberg, management estimates

Market capitalization as of 31 December (PLN million)	1,401.3
Market capitalization as of 31 December (EUR million)	353.8
Net debt (EUR million)	42.1
EV (EUR million) as of December 31	408.9
EV / EBITDA as of December 31	9.2x
Free float (PLN million)	313.9
Free float (EUR million)	79.3
Average daily turnover (PLN thousand)	869.9
Average daily turnover (EUR thousand)	219.6

Management and Personnel

Composition of the Company's Board

As of December 31, 2010, the composition of the Board of Directors of Milkiland N.V. was as follows:

- Anatoliy Yurkevych (Non-Executive Director, Chairman of the Board of Directors, member of the Audit Committee);
- Vyacheslav Rekov (Executive Director, CEO and President of the Group);
- Pavlo Yokhym (Executive Director);
- Olga Yurkevich (Executive Director, Chief Operation Officer);
- Frederick Aherne (Non-Executive director);
- Willem S. van Walt Meijer (Non-Executive director, Chairman of the Audit Committee).

Anatoliy Yurkevych, Vyacheslav Rekov, Pavlo Yohym and Olga Yurkevych served as Director during the whole 2010, while Frederick Aherne and Willem van Walt Meijer were appointed on November 29, 2010.

For information on the Company's remuneration policy and remuneration of the members of the Board of Directors, refer to *Corporate Governance Report, section Remuneration Report*.

Other information

Except for Mr. Anatoliy Yurkevych and Ms. Olga Yurkevych, who indirectly together hold 72.8% of the Company's shares, and Mr. Vyacheslav Rekov, who indirectly holds 4.8% of the Company's shares, no member of the Company's board of Directors nor any Key Executive holds any shares or stock options over such shares in the Company.

During the last financial year, there were no agreements concluded between the Company and its management personnel, which provide for compensation in case of their resignation or being removed from their position without a good reason, or being removed as a result of the Company being merged into another company.

Personnel

As of December 31, 2010, Milkiland employed 7,565 people, including 188 in the head office in Kyiv and 1,220 seasonal workers. As Milkiland's production activities are arranged through production subsidiaries (plants), the majority of our full-time personnel are based in Ukrainian regional production units (5,288 people) and Moscow-based Ostankino (935 people).

The key companies within the Group have their own HR managers and are responsible for hiring and dismissing their personnel. Candidates for managerial and key positions for all companies of the Group are being selected by the Centralized HR Department only.

There is a special procedure of candidate selection, which ensures the highest possible level of their correspondence to a certain job profile and to the corporate culture of the Group.

Staffing structure comprises about 8% charged with managerial functions and about 17% is service staff. The remaining 75% is divided between core and auxiliary production work force.

We provide equal employment opportunities to everyone, regardless of their gender, religion or nationality.

Training and Professional Development

We strongly believe that high level of competency of our employees is a key factor of our efficiency and market success. In 2010, the internal training programs were developed for the key jobs. 1925 employees were trained during 2010. All production and technical employees were assessed and had confirmed their qualification. The unique program "Birth of the Cheese" was introduced for all new employees of the Group.

We are continuously searching for new young talents to strengthen our professional team. 158 students from the leading food universities and colleges participated in our internship program during the year. Today we have built strong partnership with Kyiv National Food University, Moscow Milk and Meat Food Technology Institute, Sumy Agrarian University, Poltava Agrarian Academy, Chernihiv Polytechnic University, Lviv and Kharkiv Milk and Meat Food Technology colleges.

Corporate Social Responsibility

Our Group is committed to its employees, customers and the public at large. For Milkiland N.V., corporate social responsibility is a conscious voluntary decision to take part in addressing the social problems of society and means implementing our strategy and applying our mission to the business.

This means that not only do we pay attention to environmental issues by implementing state-of-the-art technologies. But we also develop social infrastructure in those areas where our enterprises operate, and are concerned with improving the wellbeing of the community. As part of our corporate responsibility approach, we aim to invest in a range of local community activities to create additional benefits for affected communities.

Milkiland N.V. is committed to comply with transparency and corporate responsibility standards in all areas of business operations.

In 2010, the Group focused its social activities on supporting local communities and on charity.

We supported rural development by renewing the local infrastructure in a number of Ukrainian regions where we operate. In Moscow, we supported the municipality with transportation and machinery and organized sightseeing tours for children. As a part of our support program for local communities, we donated to the Garmonia Sports and Leisure Center in Moscow.

Besides, our charity program of 2010 addressed the most vulnerable people: orphans and children with special needs, as well as homeless people. Our dairies in Russia and Ukraine donated to church hospitality, Cerebral City Initiative for Support to Disabled Children (Kyiv), Kyiv City Youth Center, Municipal Social Service, as well as other local initiatives.

Material Factors and Events

Material factors and events during the reporting period

Material factors in the Group's marketing

Increase in raw milk prices on the back of unfavourable weather conditions

The abnormal high temperature situation, which took place last year in Russia and partly in Ukraine, led to a significant growth of the market price for milk in 2010 both in Ukraine (approx. 27% y-o-y in December 2010) and Russia (approx. 19% y-o-y in December 2010). Due to the fact that raw milk account for over 60% of the Group's cost of sales our business is to a large degree sensitive to the price for this product.

The Group responded to these trends by focusing on product mix optimization and increasing selling prices across the product line. The Group managed to increase the average price for the dairy products in 2010 by approx. 46% and thus avoided margin squeeze that hit many local players.

For more information on the situation on the Group's markets, refer to section *Key Products, Production and Sales*.

Admission to the Warsaw Stock Exchange

On December 6, 2010 Milkiland N.V. successfully closed the IPO deal. The Company's shares were placed among Polish and European investors and admitted to trading at the Warsaw Stock Exchange.

In the deal, the Company offered for subscription 7,000,000 of shares, including 6,250,000 newly issued shares and additionally 750,000 existing shares in connection with over-allotment option held by the majority shareholder of the Company, 1, Inc. Cooperatief U.A.

As a result of these shares allocation by the issue price of PLN 33.78, the gross proceeds from the offering amounted to PLN 236.46 million (EUR 59.12 million), including PLN 211.13 million (EUR 52.78 million) for the newly issued shares.

The total expenses associated with the offering amounted to PLN 13.8 million (EUR 3.47 million), therefore, the net proceeds to the Company stood at PLN 197.33 (EUR 49.3 million). These funds were used for repayment of the most expensive borrowings (EUR 17.6 million), closing the deal of Ostankino shares acquisition (EUR 3.2 million) (*see below in this Section)*, and general corporate purposes (EUR 3.57 million). The remainder of IPO funds (EUR 24.93 million) was allocated on the bank deposit accounts. As of 31.12.2010, the total cash and cash equivalents of Milkiland N.V. totaled to EUR 37.7 million.

Acquisition of subsidiaries

Acquisitions of Ostankino Shares

On 30 April 2010, the Company and Catapel Ltd (Republic of Cyprus) (the "Seller") entered into a purchase and sale agreement pursuant to which the seller agreed to sell to the Issuer 484,109 shares of Ostankino (approx. 17.8% of its share capital) in three tranches: 48,419 shares by 17 May 2010, 217,849 shares by 29 October 2010, and 217,850 shares by 31 March 2011, for the total purchase price of RUR 295.09 million (EUR 7.65 million). The first and second tranches have been successfully completed on 17 May 2010 and 29 October 2010.

On 15 December 2010, the Company agreed with the Seller new terms, including earlier date of the third tranche (17 December 2010) and price discount.

As a result, the whole transaction was completed in 2010, and the total purchase price was RUR 289.4 million (approx. EUR 7.34 million), about RUR 5.7 million lower than initially agreed. As of 31 December 2010, Milkiland owns 2,553,312 shares in Ostankino dairy plant representing 93.78% of share capital.

Acquisitions of agricultural subsidiaries

On 28 November 2010, the Group acquired 45% of the charter capital of LLC AF "Konotopskaya", an agricultural company controlling around 3.4 thousand hectares of arable land in Sumy region and holding about 700 heads of milking cows. The acquisition of this company was meant to increase the Group's arable land bank and milking cow headcount. After this deal the total acreage of land leased by the Group increased to around 15,700 thousand hectares.

Financing arrangements

Raiffeisen Bank Aval facilities

On 11 June 2010 Milkiland-Ukraine and PJSC Raiffeisen Bank Aval entered into a General Loan Agreement, pursuant to which a revolving credit line with: (i) a maximum limit of USD 8 million (EUR 6 million) has been granted for the purpose of refinancing of existing obligations, and (ii) a maximum limit of UAH 32 million (EUR 3.1 million) has been granted for the purpose of factoring financing and overdraft agreement, with maturity date of 31 March 2011. The loan was secured with property, plant, equipment of the Group and suretyships provided by other companies of the Group (including the Issuer) and by Anatoliy Yurkevych. The loan was repaid in full on December 20, 2010.

Erde bank facilities

On 11 November 2010 LLC Myrhorod Cheese Plant and JSC "Erde Bank" entered into the Overdraft agreement pursuant to which the overdraft financing has been granted with a maximum limit of UAH 20 million (EUR 1.8 million) with maturity date of 31 December 2010. The loan was secured with property, plant, equipment of the Group.

UniCredit facilities

- On 29 June 2010, Ostankino (the Borrower) and Closed Joint Stock Company «UniCredit Bank» (the Lender) entered into a loan agreement with a maximum limit of RUR 125 million (EUR 3 million) matured on 9 March 2011. The interest rate is set by the Parties prior to granting the next tranche of loan by the Lender under the request of the Borrower, but the rate shall not exceed 15% per annum. The loan is secured by a suretyship of Anatoliy Yurkevych and a mortgage on the real estate.

- On 8 October 2010, Ostankino (the Borrower) and Closed Joint Stock Company «UniCredit Bank» (the Lender) entered into a loan agreement with a maximum limit of RUR 50 million (EUR 1.25 million) matured on 7 October 2011. The loan is not secured.

Sberbank facilities

- On 23 April 2010, Ostankino (the Borrower) and Joint Stock Commercial Bank Sberbank of the Russian Federation (the Lender) entered into an agreement on the opening of a non-revolving credit facility with maximum limit of RUR 130 million (EUR 3 million) maturing on 22 April 2011. The loan is secured by a suretyship of Anatoliy Yurkevych and a pledge of equipment.

- On 10 June 2010, Ostankino (the Borrower) and Joint Stock Commercial Bank Sberbank of the Russian Federation (the Lender) entered into an agreement on the opening of a non-revolving credit facility with maximum limit of RUR 105 million (EUR 2.6 million) maturing on 8 June 2011. The loan is secured by a suretyship of Anatoliy Yurkevych and a pledge of equipment.

- On 16 August 2010, Ostankino (the Borrower) and Joint Stock Commercial Bank Sberbank of the Russian Federation (the Lender) entered into the general agreement on overdraft loans. The relevant certain terms and conditions are established by separate agreements on overdrafts. According to this agreement, the parties entered into the agreement on overdraft loan on 15 September 2010 with the maximum limit of RUR 60 million (EUR 1.5 million) matured on 15 October 2010.

TRUST facilities

On 11 August 2010, Ostankino (the Borrower) and OJSC Natsionalniy bank «TRUST» (branch of NB «TRUST» (OJSC in Moscow) (the Lender) entered into an agreement on the granting credit in the form of credit line with the following maximum limits: RUR 120 million (EUR 3 million) during a period from a date of the contract's conclusion to November 09, 2010; RUR 90 million during a period from November 10, 2010 to December 09, 2010; RUR 60 million during a period from December 10, 2010 to January 09, 2011; and RUR 30 million during a period from January 10, 2011 to February 11, 2011. The maturity date was February 11, 2011

Moscow Industrial Bank facilities

- On 1 June 2010 Ostankino (the Borrower) and Joint Stock Moscow Industrial Bank (the Lender) entered into a loan agreement with the indication of the amount of credit line therein up to the limit of RUR 100 million (EUR 2.6 million). The maturity date is 31 May 2011. The loan is secured by a mortgage on the real estate.

- On 7 May 2010, Ostankino (the Borrower) and Joint Stock Moscow Industrial Bank (the Lender) entered into a loan agreement with the indication of the amount of credit line therein up to the limit of RUR 140 million (EUR 3.5 million). The maturity date is 6 May 2011. The loan is secured by a mortgage on the real estate.

- On 11 October 2010, Ostankino (the Borrower) and Joint Stock Moscow Industrial Bank (the Lender) entered into a loan agreement with a maximum limit of RUR 100 million (EUR 2.5 million) matured on 11 October 2011. The loan secured by a mortgage of the real estate.

Debt securities issuance

On 27 December 2007, Agrolite registered with the State Securities and Stock Exchange Commission of Ukraine the private placement of a total of UAH 150 million (EUR 14.5 million) 15% domestic registered unsecured bonds series A. All of the bonds have been issued. The interest on the bonds is payable in twenty quarterly instalments over the period from 24 December 2007 to 16 December 2012. The principal amount of the bonds is repayable by no later than 24 December 2012. The bonds are listed on Ukrainian Stock Exchange PFTS (code - COAGLA) since 27 December 2007.

On 24 September, 2010, Agrolite accomplished a partial buyback of the above mentioned bonds for the amount of UAH 27.9 million (EUR 2.5 million) under the purchase and sale agreement with JSC “Ukranian professional bank”.

On 24 December, 2010, Agrolite accomplished an additional partial buyback of these bonds for the total amount of UAH 87.2 million (EUR 7.9 million) under purchase and sale agreements with bond holders.

Sales and Distribution Agreements

The Group’s products are sold primarily in Ukraine and Russia. A part of sales goes to other CIS countries such as Kazakhstan, Moldova etc. The Group in 2010 also received insignificant revenues from selling products outside CIS. The Group sells its products through local retailers and through dealers and distributors as well. The Group also participates in public tenders for the sale of its products to kindergartens, schools, and other social institutions.

The major distributors of Group’s products in its home markets are X5 Retail, Metro, and Fozzi. The Group is a party the most significant agreements in Ukraine and in Russia set out below. The Group supplies its products to distributors on the basis of 14-21 days of deferred payment, and to major retail chains on the basis of deferred payment up to 30-45 days.

Distribution in Russia

On 1 August 2010 the Ostankino (the Vendor) entered into the contract for delivering of the products to the LLC Agroaspect (Buyer 2). Under this agreement the Vendor is obliged to deliver products in separate butches in accordance with agreed orders to the store and warehouses of Buyer 2 in the central, North-West, Volgo-Vyatsky regions, as indicated in such orders.

Export Agreements

The Group exports cheese and other dairy products to Russia, Kazakhstan, Moldova and some other countries. The exports are conducted by Milkiland-Ukraine and Avtek Rent Service that entered into the following significant agreements:

- Milkiland-Ukraine entered into two agreements with LLC Ellada (the Russian Federation), the major distributor of the Group’s cheeses in Russia. Pursuant to Agreement dated 29 April 2010, for the total amount of RUR 1 billion (EUR 25.6 million) Milkiland-Ukraine supplies to LLC Ellada dairy products on a CPT basis either within 5 days from the prepayment date or within 5 days from the date of the invoice. This agreement is valid until 31 December 2011.

- Avtek Rent Service entered with LLC Ellada into the agreement dated 31 March 2010 for the total amount of RUR 400 million (EUR 11 million). This agreement is valid until 31 December 2010, and stipulate supply of the dairy products on CPT basis either within 5 days from the prepayment date or within 5 days from the date of the invoice.

- On 1 April 2010, Avtek Rent Service Entered into Agreement No. 01A with LLC Everest (Russia) on the supply of dairy products to Russia, for the total amount of RUR 600 million (EUR 15 million). The purchase price also includes packaging, marking, loading, insurance, customs clearance, and transportation. The agreement was valid until 31 December 2010. The goods are supplied on the basis of 100% pre-payment.

Material factors and events after the reporting date

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

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

In accordance with the new Tax Code adopted in December 2010, starting from the 1st of January 2011, the new mechanism of the government support to raw milk producers is implemented. Under the new regulations, the government subsidy should be paid directly to raw milk producers by government agencies; therefore, milk processing companies are obliged to pay their VAT to state budget in full. The Government of Ukraine by its Regulation No. 246 dated 2 March 2011 adopted the order of such allocation of subsidies which, *inter alia,* established some requirements to raw milk producers, namely agricultural companies and individuals. Meanwhile, the new mechanism is not implemented in full, which do not allow evaluating all of its implications to the Ukrainian dairy industry.

One of possible implications of the new mechanism for the Group is an increase in the production costs, since additional VAT should be paid to the state budget with no change in the milk purchase price until all the procedures are settled. The Group is going to mitigate this by means of a decrease in the purchase price paid to the raw milk producers based on the fact they can rely on the additional inflow of the subsidies directly from the state budget. We are also going to be among the recipients of the state support through 5 subsidiary agricultural companies which produce the in-house milk.

Fulfillment of Strategy in 2010 and Outlook for 2011

Strategic priorities

Milkiland's strategic goal is to become an internationally recognized CIS dairy company with clear market leadership in cheese segment and strong position in whole milk products. Being one of the largest dairy players in the CIS we believe that we can capitalise on significant market growth potential and the market's fragmented structure, by identifying attractive consolidation opportunities and continuing our organic growth.

We will distinguish ourselves as "supplier of choice" for families in Ukraine and Russia, offering a full range of everyday dairy products at the highest value for money. In this area we are going to have advantage by controlling the whole supply chain – from farm to people's homes, and thus ensuring high quality and affordable price.

Our primary focus will be fresh dairy and cheese, as these are the most promising and healthiest segments. We believe that we know how to create products appealing to our consumers with their healthy, genuine qualities and superior taste.

Geographically, we will focus on the CIS market, as we see a lot growth opportunities here; we plan to extend our production footprint in these core markets. In particular, we plan to set up sizeable cheese-making facilities in Russia.

To support our growth and ensure quality offering, we plan to establish our own milk production facilities in order to eventually satisfy 20-25% of our internal needs. We plan to build a long term competitive advantage on access to quality raw milk, as we consider this is one of the most challenging issues for local players. Local dairy farming is slowly returning to growth and lagging behind expanding demand, both in terms of volume and quality.

Over the next five years, we target to organically increase our volume sales by no less than 40% in fresh dairy, and by at least 30% in cheese. The value growth will be more significant, as we plan to advance more in the segments of higher value added and premium segments.

We closely watch acquisitions, as the fragmented industry structure offers a number of opportunities, both in Ukraine and Russia. Milkiland successfully integrated many companies over its history, and we believe this is our strong point. However, we will get involved only in the deals that qualify to our set of strategic criteria, and provide long term benefit for Milkiland. Therefore, we will prefer to focus on a few but really winning deals rather than spending our efforts on smaller targets.

Strategy fulfilment in 2010

The key 2010 event for Milkiland was fulfilling of its strategic goal to become a public company. The IPO of the Group's holding company Milkiland N.V. at Warsaw Stock Exchange was accomplished on December 6, 2010, resulting in 22.4% of the Company's shares being placed among Polish and European investors, with net proceeds of EUR 49.4 million to the Group. These funds will be used to bring the business to the new level of market power and operational excellence.

Another significant accomplishment in 2010 was optimization of brand and product mix. Following our marketing strategy, we revised our portfolio and eliminated a number of regional brands not worth supporting. Also, the total SKUs count was decreased by more than 20%, as outdated and loss-making items were removed. Such portfolio clean-up is necessary starting point for long term brand building that commenced last year.

Following our strategic intention to start own milk production, we did a lot of important preparatory works in 2010. Our land bank has increased by 50% to 15.7 thousand hectares and is now sufficient for our 2011-2012 farming plans. Also, we have put together agricultural team that, in our opinion, is able to achieve our aggressive targets in milk production.

Strategic outlook for 2011

We strongly intend to continue implementation of best practice strategic management, ensuring long term vision, stringent risk management and transparency for investors. In 2011 we plan to accomplish a number of initiatives in this area:

- Acquire additional industry expertise; we have preliminary agreed with a strong Dutch expert in raw milk supply to serve as non-executive director to Milkiland N.V., subject to approval by the forthcoming annual General Meeting of Shareholders;
- Rebuild of internal audit system in order to serve the purposes of public company;
- Implement first phase of enterprise resource planning system (ERP) in order to ensure top accuracy and responsiveness of financial and managerial accounts.

Our marketing targets assume volume and value expansion in the segments of cheese and whole milk products. We consider 2011 a good year to continue organic growth, as many smaller local players give up their market share due to poor financial position.

Our investment budget for 2011 amounts to about EUR 25 million, mostly for the purposes of assets modernization and development of own farms.

In order to support our aggressive organic growth, we will commence two major modernization programs in 2011:

- Ostankino: overall upgrade of production premises and equipment in order to increase product quality and improve efficiency;
- Okhtyrka Cheese Plant: debottlenecking of cheese-making capacities by 7 thousand tones and introduction of a new packaging line for mould cheese

Also, to ensure best-in-class product availability and optimize working capital, we plan to implement supply chain management system.

In the area of raw milk supply, we plan to establish in 2011 two modern milk farms with overall capacity of about 6,000 milking cows, capable of producing over 40 thousand tones of high-quality milk per annum. Also, we will continue land expansion and aim to double land resources in 2011-12.

In addition to development of own farms, in 2011 we plan to make a strategic advance in milk sourcing from individual households. In late 2010 and early 2011, Milkiland has actively supported creation of a number of agricultural cooperatives in the regions of Ukraine where we source our raw milk. These cooperatives are aimed to get individual farmers under one roof and establish long term relations that would benefit both Milkiland and its suppliers. The purpose of cooperatives is to provide service to farmers in the areas of cow milking, breeding and healthcare. Also, cooperatives are good platform to introduce best farming practices among individual farmers.

Material Risk Factors and Threats to the Group

The Group's business, financial condition and results of operations could materially affected by a number of risks. Described below are the risks and uncertainties that Company believes are material, but these risks and uncertainties may not be the only ones faced by the Group.

Business and industry risks

Exports to Russia

Cheese exports from Ukraine to Russia are subject to approval by the Russian Veterinary and Phytosanitary Authority. In January 2006, the Russian Federation imposed a ban on imports of all dairy products from Ukraine due to the alleged violation of veterinary and sanitary standards by the Ukrainian dairy producers. As a result, a number of Ukrainian cheese makers suffered damages. There can be no assurance that Russia will not apply such or similar measures in the future. If applied, such measures could have a material adverse impact on the Group’s business.

Input cost increase

The Group’s business is subject to price fluctuations and shortages which sometimes are beyond its control. Although historically the Group has been able to pass on increases in raw material prices to its customers, there is no assurance that it will be able to do so in the future as this will depend to a large extent on market conditions. Even if the Group is able to pass these costs on to consumers, an increase in selling prices may inhibit consumer appetite for its products. For these reasons, significant increase in price of raw materials could materially adversely affect the Group’s business.

Raw milk deficit

Raw milk is a key input in the Group’s production process and ensuring a sufficient supply of raw milk is crucial for the Group’s business. The production of raw milk in Ukraine and Russia is stagnating over last years and is subject to seasonal fluctuations, with a surplus typically being produced in spring and summer while there is a reduction in supply during the winter months. Therefore, the Group could face difficulties in sourcing supplies of raw milk on commercially acceptable terms. This could materially adversely affect the Group’s business.

Exports VAT refunds

Although not specific to the agricultural industry, the Group benefits from additional VAT refunds in connection with its exports sales. Because exports sales are generally taxed at the rate of 0%, the Group's input VAT is subject to reimbursement by the government. Due to a high budget deficit in Ukraine, many taxpayers entitled to VAT refund may not receive such refund on a timely basis. Although the Group until now managed to collect VAT receivables on exports in sufficient amounts, there is a risk that any failure by the Group to receive such refunds may adversely affect its results of operations.

Contamination of the Group’s products

As a producer of food products, the Group’s business is subject to certain risks related to the actual or alleged contamination or deterioration of its ingredients or its principal products, or of similar products sold by other producers. Any such actual or alleged contamination or deterioration could adversely impact the Group’s reputation, sales and profitability.

Competitive pressure

Failure by the Group to anticipate, identify or react to changes in consumer tastes or in competitors’ activities could result in reduced demand for the Group’s products, which in turn could result in the Group not being able to maintain its market shares or to recover development, production and marketing costs.

Antimonopoly proceedings

As the Group is one of one of the leading milk processors in Ukraine, it may face claims that it has abused its dominant position. This could result in legal proceedings under competition legislation and imposition of fines or other penalties and restrictions on the conduct of the Group’s future business.

Country risks

Economic considerations

The global financial crisis has led to significant decrease in economies of Milkiland’s home markets. The negative trends in Russian and Ukrainian economy may continue if local governments are not able to overcome crisis consequences, or if global slowdown resumes. In this case, Milkiland's business might be negatively affected.

Exchange and interest rate risk

Fluctuations of exchange rates of Hryvnia, Rouble or other currencies may have an adverse effect on the financial results of the Group.

Risks of legislation and judicial system

The Russian Federation and Ukraine are still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental laws have only recently become effective. The recent nature of legislation and the rapid evolution of the respective legal systems result in ambiguities, inconsistencies and anomalies in their application. In addition, legislation in Russia and Ukraine sometimes leaves substantial gaps in the regulatory infrastructure.

All of these factors make judicial decisions in the Russian Federation and Ukraine difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these weaknesses could affect the Group's ability to enforce its rights or to defend itself against claims by others, which could have a material adverse effect on the Group's business.

Political and governmental considerations

Shifts in governmental policy and regulation in Russia and Ukraine may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the governments of Russia and Ukraine could lead to political instability, which could have a material adverse effect on Milkiland's business.

CORPORATE GOVERNANCE REPORT

Introduction

Milkiland N.V. (the "Company"), having its registered office in the Netherlands and having issued shares that are admitted to trading on a regulated market, is subject to the principles of Corporate Governance as stated in the Dutch Corporate Governance Code (the "Code"). Moreover, since its shares are listed on the Warsaw Stock Exchange, the Company is subject to the principles of Corporate Governance as stated in the Corporate Governance Code of the Warsaw Stock Exchange (the "WSE Code").

Companies to which the Code applies are required to disclose in their annual reports whether or not they apply the provisions of the Code that relate to the management board or supervisory board and, if they do not apply, to explain the reasons why. The Code provides that if a company's general meeting of shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

Main points of corporate governance structure

The Company is a public company with limited liability incorporated under Dutch law, having its registered office at Reinwardstraat 232, 1093 HP, Amsterdam, the Netherlands. The Company has two subsidiaries acting as the Group's operating companies: Ostankino and Milkiland-Ukraine. Milkiland-Ukraine has 26 subsidiaries, including 25 Ukrainian companies and one Panamanian.

Board of Directors

The Company has a one-tier corporate governance structure, managed by the Board of Directors. The Board of Directors is responsible for the management of the Company, its overall results, as well as its mission, vision and strategy. The Board of Directors consists of six directors: three Executive and three Non-Executive Directors. Two Non-Executive Directors (Mr. F.J. Aherne and Mr. W.S. van Walt Meijer) are independent.

The Board of Directors charges the Executive Director(s) with the operational management of the Company, the preparation of the decision-making process of the Board of Directors and the implementation of the relevant decisions. The Executive Director(s) determine the division of duties between them. A division of tasks between the Directors may be determined by the Board of Directors. Such division shall require the approval of the General Meeting of Shareholders pursuant to article 13.4 of the Articles of Association. The Non-Executive Director(s) are charged with the supervision of duties by the Executive Directors and of the general affairs and policy of the Company.

Board of Directors - composition

During the year 2010, the composition of the Board of Management was as follows:

A. Yurkevych: Non-Executive Director, appointed Chairman of the Board of Directors as of 28 August 2007

V. Rekov: Executive Director, appointed as of 28 August 2007 and President of the Group

P. Yokhym: Executive Director, appointed as of 9 May 2008

O. Yurkevich: Executive Director, appointed as of 28 August 2007

F.J. Aherne: Non-Executive Director, appointed as of 29 November 2010.

W. S. van Walt Meijer: Non-Executive Director, appointed as of 29 November 2010.

Board of Directors - Terms of Reference

The Terms of Reference of the Board of Directors, which provide for certain duties, composition, procedures and decision-making of the Board of Directors, were adopted in accordance with article 13.4 of the Company's Articles of Association, the Best practice provisions under chapters II (and III) of the Code and Best practice provisions No. 28 and No. 40 of the WSE Corporate Governance Rules. The Terms of Reference of the Board of the Company are applied and interpreted with reference to the Code and the WSE Corporate Governance Rules and can be viewed on the Company's website (www.milkiland.nl).

The Chairman of the Board of Directors determines the agenda, presides over meetings of the Board of Directors and is responsible for the proper functioning of the Board of Directors. The Chairman of the Board of Directors shall always be a Non-Executive Director and is appointed by the General Meeting of Shareholders. The Board of Directors is assisted by our corporate secretary. All members of the Board of Directors have access to the advice and services of the corporate secretary, who is charged with ensuring that the Board of Directors procedures are followed and that the Board of Directors acts in accordance with its statutory obligations under the Articles of Association. The corporate secretary is appointed and dismissed by the Board of Directors.

Board of directors - Representation

Executive Board Member(s) have the authority to represent the Company, including the authority to represent the Company acting individually. The Company may grant special and general powers of attorney, authorising them to represent the Company and bind it vis-à-vis third parties, to persons regardless of whether they are employed by the Company.

Board of directors - Conflict of interest

In the event that the Company has a conflict of interest with a Director, in the sense that the Director in private enters into an agreement with, or is party in a legal proceeding between him and the Company, the Company shall be represented by one of the (other) Executive Directors. If there are no such other Directors, the Company shall be represented by two Non-Executive Directors acting jointly. If there are no such Non-Executive Directors, the General Meeting of Shareholders shall appoint a person to that effect. Such person may be the Director in relation to whom the conflict of interest exists. In all other cases of a conflict of interest between the Company and a Director, the Company can also be represented by that Director. The General Meeting of Shareholders shall at all times be authorized to appoint one or more other persons to that effect.

Board of directors - Appointment and profile

Members of the Board of Directors are appointed for a maximum period of four years starting on the day of the General Meeting of Shareholders on which they are appointed and ending on the day of the annual General Meeting of Shareholders that will be held in the fourth year of their appointment. Members of the Board of Directors may immediately be reappointed. Members of the Board of Directors can be suspended or dismissed by the General Meeting of Shareholders. If the General Meeting of Shareholders has suspended a director, the General Meeting of Shareholders shall within three months of the date on which the suspension has taken effect resolve either to dismiss such director, or to terminate or continue the suspension, failing which the suspension shall lapse. A resolution to continue the suspension may be adopted only once and in such event the suspension may be continued for a maximum period of three months commencing on the day of the General Meeting of Shareholders has adopted the resolution to continue the suspension. If within the period of continued suspension the General Meeting of Shareholders has not resolved either to dismiss the director concerned or to terminate the suspension, the suspension shall lapse.

The Company has a profile for its Directors, which indicates the size and composition of the Board of Directors, the activities and expertise and background of the Directors. The Profile of the Board of Directors can be viewed on the Company's website.

Board of Directors - Committees

The Board of Directors has an audit committee. The Board of Directors may establish any other committee as the Board of Directors shall decide. Only non-executive Directors can take place in the audit committee, a remuneration committee and/or selection- and appointment committee.

The audit committee is responsible for reviewing annually and reassessing the adequacy of the rules governing the committee as established by the Board of Directors. The audit committee will be charged with advising on, and monitoring the activities of the Board of Directors, with respect to inter alia, the integrity of the Company's financial statements, the Company's financing and finance related strategies and tax planning. The members of the Audit Committee of the Company are Mr. van Walt Meijer (the Chairman) and Mr. A. Yurkevych. The Terms of Reference of the Audit Committee can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).

Board of Directors - Miscellanious

None of the Managing Directors holds more than two supervisory board memberships of listed companies or is a chairman of such supervisory board other than a group company. The total number of the Company's shares held by members of the Board of Directors is 24,250,000.0 amounting to approximately 77.6% of the issued and paid up share capital of the Company. The shareholding of the Directors has been notified with the AFM (Autoriteit Financiële Markten).

With respect to acquiring ownership interest of securities and transactions in securities by the Directors, the Company has the Board Securities Rules of the Company.

With respect to acquiring shares in the Company's capital by the Directors as well as other people that are involved with the Company, the Company follows the provisions of the EU Market Abuse Directive and the Company's Insider Trading Rules that reflect the provisions of this Directive.
The Company's authorised capital amounts to five million Euros (EUR 5,000,000.00). The issued share capital of the Company amounts to EUR 3,125,000.00 which is divided into 31,250,000 shares with a nominal value of ten eurocent (EUR 0.10) each, all of the same class and kind; there are no shares issued with special rights or privileges attached to them. There are no restrictions imposed by the Company to transfer shares or certificates.

There have been no conflicts of interest situations between the Company and its shareholders.

Shares and general meetings of shareholders
At least once a year, a General Meeting of Shareholders is held. General Meetings of Shareholders are convened by the Board of Directors. In 2010, seven General Meetings of Shareholders were held. The principal decisions taken by the General Meeting of Shareholders involved the discharge of Mrs. M. Hamtian from the position of Administrative Director of the Company on 31 March 2010; the adoption of the Annual Report of the Company for the fiscal year ended 31 December 2009, on 23 June 2010; the payment of dividends for the year 2009 and the allocation of part of the profits of the Company to the material incentive fund, on 4 August 2010; and finally, the appointment of Mr. W. S. Van Walt Meijer and Mr. F. J. Aherne as Non-Executive Directors on 29 November 2010.

Notices of a General Meeting of Shareholders are posted on the Company's website and are made in accordance with the relevant provisions of the law. The notice convening a General Meeting of Shareholders shall be published no later than the 42nd day prior to the day of the meeting. The agenda and the explanatory notes thereto shall also be published on the Company's website at the same time. The agenda for the annual General Meeting of Shareholders shall contain, inter alia, the adoption of the annual report, the reservation and dividend policy, a proposal to declare dividends, the proposal to grant a discharge to the members of the Board of Directors from liability and insofar applicable the appointment of an external auditor. Board Securities Rules of the Company and the Insider Trading Rules can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).

Shareholders and shares

Shareholders, insofar entitled to make such request according to the law, can request the Board of Directors in writing to include subjects to the agenda at least 60 days before the date on which the General Meeting of Shareholders is convened.

In accordance with Dutch law, the record date for General Meetings of Shareholders shall be the 28th day before the date of the relevant General Meeting of Shareholders, and the holder of shares as per the record date will be entitled to vote, irrespective of any transfer of such shares between the record date and the date of the General Meeting of Shareholders.

At General Meetings of Shareholders, each ordinary share entitles the holder thereof to cast one vote.

The General Meeting of Shareholders is entitled to resolve to grant approval to decisions of the Board of Directors regarding the identity or the character of the Company, including major acquisitions and divestments.

Internal risk management and control systems

The Board of Directors is responsible for the system of internal risk management and controls of the Company and for reviewing its operational effectiveness.

The internal risk management and control systems are designed to identify significant risks and to assist the Board of Directors and the Company in managing the risks that could prevent the Company from achieving its objectives.

The Board of Directors is responsible for establishing and maintaining adequate internal risk management and control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve important business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.

Internal audit department

In the financial year 2010, the internal audit function of the Company was performed by the internal audit department and partially by licensed external auditors. The Company recognizes the importance of internal audit and envisages to further improve its existing audit function. The Company has appointed a new head of internal audit as per 1 April 2011, whose main responsibilities involve the implementation of the internal control environment, global risk assessment and management, and the realization of regular internal audit functions.

Compliance with the Code

On 29 November 2010 the General Meeting of Shareholders of the Company adopted a set of corporate governance documents recommended by the Code and WSE Corporate Governance Rules. The above-mentioned set of corporate governance documents includes:

1. Terms of Reference of the Board of Directors.
2. Code of Conduct.
3. Matters requiring the consent of the majority of non-executive Board members.
4. Whistleblower Rules.
5. Terms of Reference of the Audit Committee.
6. Board Securities Rules.
7. Insider Trading Rules.

The Company complies with a majority of the WSE Corporate Governance Principles. It is noted that the one tier board structure of the Company deviates from the WSE Corporate Governance Code that prescribes the existence and functioning of two separate governing bodies.

Since the WSE Corporate Governance Rules are similar to the rules provided under the Code, the Company complies with a majority of the principles and best practice provisions of the Code.

The Company does not apply the following provisions of the Code:

Principle III.8: The composition and functioning of a one tier board shall be such that proper and independent supervision by the non-executive members of such board is assured. The Company acknowledges that the current composition of the board is not independent as referred to in the Code, however believes that the Company has sufficient risk and control mechanism in place to assure proper supervision.

Best Practice provision III.8.1: The chairman of the Board of Directors may not also be or have been an executive director. However, the Company believes that it is in the best interest of the Company and the Group to maintain Mr. A.Yurkevych as Chairman of the Board of Directors due to his extensive knowledge of the Group's business.

Best Practice provision III.8.3: In deviation from chapter III.5 of the Code, the Company has not yet established a remuneration committee nor a selection and appointment committee. The setting up of a remuneration policy is foreseen and will be adopted by the Company in 2011. The Company believes that it is in the best interest of the Company that a selection and appointment committee is not formed yet and the Board of Directors will conduct the relevant duties that are charged upon this committee on the basis of the Code.

Best Practice provision III.8.4: The majority of the members of the Board of Directors shall be non-executive directors and are independent within the meaning of the Code. Currently the Board of Directors of the Issuer is composed as such that it has no majority of non-executive directors. The Company believes however that the current composition of the Board of Directors is such that it will provide for proper management and supervision.

Best practice provision IV.3.13: The Company currently has not yet developed an outline policy on bilateral contacts with the shareholders. The Company will develop such a policy and publish it on its website in 2011.

In deviation of principle V.2 of the Code, the Company's external auditor has not been appointed by the General Meeting of Shareholders. The appointment is foreseen to take place on the General Meeting of Shareholders on 20 May 2011 for the financial year 2011.

Report of non-executive directors

The Non-Executive Directors of the Board of Directors, Mr. Anatoliy Yurkevych, Mr. Willem van Walt Meijer, Mr. Frederick Aherne have performed the following actions and duties in their role as Non-Executive Director 2010.

The Non-Executive Directors are charged with supervising, monitoring and advising the executive Board members with respect to all responsibilities of the Board of Directors.

Mr. Willem van Walt Meijer and Mr. Frederick Aherne are independent within the meaning Best Practice Provision III.2.2 of the Dutch Corporate Governance Code, Mr. Anatoliy Yurkevych cannot be considered independent.

Mr. Willem van Walt Meijer and Mr. Frederick Joseph Aherne were appointed as Non-executive Directors of Milkiland N.V. on 29 November 2010.

In carrying out their task, all of the above mentioned Non-Executive Directors gave their advices and expertise for the best Company practice. Mr. Willem van Walt Meijer is the Chairman of the Audit Committee and Mr. Anatoliy Yurkevych is the member of the Audit Committee.

There were no irregularities in the 2010 financial year that required interventions by the Non-Executive Directors.

Remuneration policy and remuneration report

The objective of the Group's remuneration policy is to provide a compensation program allowing for the attraction, retention and motivation of members of the Board of Directors who have chartered traits, skills and background to successfully lead and manage the Company.

The general policy with regard to the remuneration of members of the Board of Directors shall be adopted by the General Meeting of Shareholders. The current remuneration policy is planned to be adopted on the forthcoming annual General Meeting of Shareholders.

Individual-specific responsibilities are taken into consideration in respect of the determination and differentiation of the remuneration of the members of the Board of Directors.

The Group's policy towards the members of the Board of Directors and Key Executives, as well as employment contracts of the members of the Board of Directors Members and Key Executives do not provide for any benefits in the case of dismissal or termination of such person's service, employment contract or other similar agreement. The Members of the Board of Directors and Key Executives are not granted any pensions, retirement or similar benefits.

Information about the remunerations paid to the Company's Directors in 2010 for rendered services is presented in the table below.

Name	Position in 2010	Appointed	2010			2009		
			Remune-ration	Expenses reimbur-sement	Total	Remune-ration	Expenses reimbur-sement	Total
Vyacheslav Rekov	Chief Executive Officer	28.08.2007	163,850	0	163,850	679,072	0	679,072
Olga Yurkevich	Chief Operating Officer	28.08.2007	1,049,394	0	1,049,394	677,124	0	677,124
Anatoliy Yurkevych	Chairman of the Board of Directors	28.08.2007	367,875	0	367,875	151,767	0	151,767
Pavlo Yokhym	Member of the Board of Directors	09.05.2008	57,504	0	57,504	52,156	0	52,156
Willem van Walt Meijer	Independent director	29.11.2010	0	0	0	n.a.	n.a.	n.a.
Frederick J. Aherne	Independent director	29.11.2010	39,924	0	39,924	n.a.	n.a.	n.a.

Directors' remuneration in the table above accounts for directors' fees, salaries of executive directors, bonuses and other incentive payments. The Company's remuneration policy in 2009 and 2010 did not provide any reimbursement of Directors' expenses.

Remuneration for 2009 includes bonuses actually accrued in 2010 for the financial results of 2009 at the total amount of EUR 1,222 thousand (EUR 611 thousand to Vyacheslav Rekov and EUR 611 thousand to Olga Yurkevich).

Remuneration of Vyacheslav Rekov for 2010 does not include bonuses, as his variable compensation should be calculated based on audited consolidated accounts of Milkiland N.V. for the year 2010.

Willem van Walt Meijer and Frederick Aherne joined the Company late in 2010, therefore their remuneration does not reflect their annual packages. Willem van Walt Meijer did not receive any payments from the Group in 2010.

REPRESENTATIONS OF THE BOARD OF DIRECTOR

Representation of the Board of Directors on the Compliance of Annual Financial Statements

The Board of Directors hereby represents, to the best of its knowledge, that the statutory financial statements of the Company and its consolidated subsidiaries for the year ended 31 December 2010 are prepared in accordance with the applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position and the result of the Company and its consolidated subsidiaries, and that the report of the Board of Directors for the year ended 31 December 2010 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at 31 December 2010 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended 31 December 2010, including a description of the key risks that the Company is confronted with.

Representation of the Board of Directors on Appointment of an Entity Qualified to Audit Annual Financial Statements

The Board of Directors hereby represents that BDO CampsObers Audit & Assurance B.V., which performed the audit of the statutory financial statements of the Company for the year ended 31 December 2010, has been appointed in accordance with the applicable laws and that this entity and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with the applicable provisions of law.

Representation of the Board of Directors Relating to the System of Internal Control

In line with best practice provision II.1.4 of the Dutch Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2010, the Board of Directors assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analysis that was carried out at the Company within the framework of governance and compliance, the Board is of the opinion, after consulting with the Audit Committee, that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. There is an inherent limitation in that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty in regards to the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2011.

Board of Directors of Milkiland N.V.

Amsterdam, 15 April 2011

A. Yurkevych	V. Rekov	O. Yurkevych
P.I. Yokhym	W. S. van Walt Meijer	F.J. Ahern

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

Application stated below should be considered in conjunction with description of independent auditors' responsibilities provided in the independent auditor's report and is carried out in order to segregate responsibility of management and independent auditors in respect of the consolidated financial statements of Milkiland N.V.

Management presents the accompanying consolidated financial statements of Milkiland N.V. and its subsidiaries (the "Group") as at 31 December 2010 and for the year ended 31 December 2010 (hereinafter referred to as "IFRS financial statements"), prepared in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, the management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making reasonable assumptions and estimates;
- Comply with relevant IFRS and disclose all material departures in the Notes to financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- Keeping books in accordance with local legislation and accounting standards;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 had been approved by the Board of Directors.

Director	**Director**	**Director**
A.Yurkevych	**V.Rekov**	**O.Yurkevych**
Director	**Director**	**Director**
P.Yokhym	**W. S. van Walt Meijer**	**F.J. Aherne**

(All amounts in euro thousands unless otherwise stated)

	Notes	2010	2009
ASSETS			
Current Assets			
Cash and cash equivalents	8	37,757	6,676
Trade and other receivables	9	22,170	21,787
Inventories	10	27,166	18,866
Current income tax assets		218	280
Other taxes receivable	11	21,061	8,744
		108,372	**56,353**
Non-Current Assets			
Goodwill	12	2,117	1,968
Property, plant and equipment	13	126,379	119,843
Other intangible assets	13	347	339
Deferred income tax assets	26	30,503	5,545
Investments in associates		216	-
		159,562	**127,695**
TOTAL ASSETS		**267,934**	**184,048**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	15,529	13,576
Current income tax liabilities		365	16
Other taxes payable	15	1,011	822
Short-term loans and borrowings	16	43,764	30,986
		60,669	**45,400**
Non-Current Liabilities			
Loans and borrowings	16	36,072	61,949
Deferred income tax liability	26	47,761	25,993
Other non-current liabilities	17	454	496
		84,287	**88,438**
Total liabilities		**144,956**	**133,838**
Equity attributable to owners of the Company			
Share capital	18	3,125	2,500
Share premium	18	48,687	-
Revaluation reserve		34,664	32,689
Currency translation reserve		(12,070)	(14,152)
Retained earnings		42,441	16,525
		116,847	**37,562**
Non-controlling interests		6,131	12,648
Total equity		**122,978**	**50,210**
TOTAL LIABILITIES AND EQUITY		**267,934**	**184,048**

(All amounts in euro thousands unless otherwise stated)

	Notes	2010	2009
Revenue	19	258,495	200,008
Cost of sales	20	(161,299)	(129,975)
Gross Profit		**97,196**	**70,033**
Government grants recognised as income	17	400	339
Selling and distribution expenses	21	(20,420)	(18,687)
Administration expenses	22	(31,601)	(23,756)
Other expenses, net	23	(10,748)	(5,727)
Operating Profit		**34,827**	**22,202**
Finance income	24	1,409	853
Finance expenses	24	(12,937)	(14,186)
Discount on VAT bonds sold	25	(1,656)	-
Foreign exchange gain/(loss), net		204	(948)
Profit before tax		**21,847**	**7,921**
Income tax	26	147	245
Profit for the year		**21,994**	**8,166**
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		3,112	(2,982)
Gains on revaluation of properties	13	2,705	20,433
Tax effect on revaluation of properties	26	(676)	(4,522)
Effect from changes in tax rates (charged to revaluation reserve)	26	3,660	-
Total comprehensive income/(loss) for the year		**30,795**	**21,095**
Profit attributable to:			
Owners of the Company		21,777	8,109
Non-controlling interests		217	57
		21,994	**8,166**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		29,421	18,216
Non-controlling interests		1,374	2,880
		30,795	**21,096**
Earnings per share, basic and dilluted (in euro cents)	31	**85.58**	**32.44**

MILKILAND N.V.
Consolidated statement of cash flows
(All amounts in euro thousands unless otherwise stated)

	2010	2009
Cash flow from operating activities:		
Profit before taxation	21,847	7,921
Adjustments for:		-
Depreciation and amortization	9,664	7,665
Foreign exchange (gain)/loss	(204)	948
Loss from write off, revaluation and disposal of non-current assets	1,764	1,717
Change in provision and write off of trade and other accounts receivable	97	(426)
Change in provision and write off of unrealised VAT	9,337	3,747
Change in provision and write off inventories	691	423
Write off of accounts payable	(1,943)	(655)
Finance costs, net	11,528	13,333
Operating cash flows before working capital changes	**52,781**	**34,673**
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivable	(52)	(2,824)
(Increase)/decrease inventories	(7,565)	(3,331)
(Increase) decrease other taxes receivable	(21,079)	(8,009)
(Decrease)/increase in other taxes payable	127	(61)
(Decrease)/increase in accounts payable	3,148	3,657
Cash used by operations:	**27,360**	**24,105**
Interest paid	(12,959)	(14,435)
Interest received	1,440	429
Income taxes paid	(1,288)	(1,375)
Net cash from operating activity	**14,553**	**8,724**
Investing activities:		
Proceeds from sale of property, plant and equipment	60	145
Acquisition of property, plant and equipment	(6,327)	(2,190)
Acquisition of associates	(217)	-
Acquisition of subsidiaries and non-controlling interest	(7,323)	-
Net cash from investment activity	**(13,807)**	**(2,045)**
Financing activities:		
Other payments paid off	-	(570)
Proceeds from IPO	52,781	-
IPO costs paid	(2,687)	-
Proceeds from Group companies	178	-
Proceeds from borrowings	47,118	20,277
Repayment of borrowings	(67,263)	(22,625)
Net cash from financial activity	**30,127**	**(2,918)**
Effect of exchange rate changes on cash and cash equivalents	234	(266)
Net increase in cash	**31,107**	**3,495**
Cash at beginning of the period	6,650	3,181
Cash at the end of the period	**37,757**	**6,676**

(All amounts in euro thousands unless otherwise stated)

	Attributable to equity holders of the company								
	Share capital	Share premium	Additional capital	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
Balance at 1 January 2009	2,500		-	(11,474)	22,758	6,230	**20,014**	**9,100**	**29,114**
Total comprehensive income for the year	-		-	(2,678)	12,785	8,109	**18,216**	2,880	**21,096**
Realised revaluation reserve, net of income tax	-		-	-	(2,186)	2,186	-	-	-
Other movements	-		-	-	(668)	-	**(668)**	668	**-**
Balance at 31 December 2009	**2,500**		**-**	**(14,152)**	**32,689**	**16,525**	**37,562**	**12,648**	**50,210**
Balance at 1 January 2010	**2,500**		**-**	**(14,152)**	**32,689**	**16,525**	**37,562**	**12,648**	**50,210**
Total comprehensive income for the year	**-**	**-**	**-**	**2,428**	**5,216**	**21,777**	**29,421**	**1,374**	**30,795**
Acquisition of minority shares in Ostankino	-		-	(346)	1,496	(598)	552	(7,891)	**(7,339)**
Share issue	625	48,687					49,312	-	**49,312**
Realised revaluation reserve, net of income tax	-		-	-	(4,737)	4,737	**-**	-	**-**
Balance at 31 December 2010	**3,125**	**48,687**	**-**	**(12,070)**	**34,664**	**42,441**	**116,847**	**6,131**	**122,978**

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 year ended 31 December 2010 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 15 April 2011 and are subject to adoption by the shareholders during the Annual General Meeting.

The Company was incorporated on 13 July 2007 under Dutch law as a private limited liability company (B.V.). On May 23, 2009 the Company was converted into a public limited liability company (N.V.). The address of its registered office is Reinwardtstraat 232, 1093HP, Amsterdam, the Netherlands and the principal place of business is 9 Boryspilska Str., 02090, Kyiv, Ukraine.
As at 31 December 2010 the Company is owned by 1, Inc. Cooperatief (holding 72.8% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine and in Russia, able to process up to 1,100 thousand tonnes of milk per year. The factories purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2010 to 31 December 2010 the Company had the following direct and indirect subsidiaries and associates:

Name	Location	31 December 2010 Effective share of ownership	31 December 2009 Effective share of ownership
Milkiland Corporation	Panama	100%	100%
JSC Ostankino Dairy Combine	Russia, Moscow	93,87%	75,23%
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	76,0%	76,0%
LLC Molochni vyroby	Ukraine	100%	100%
DE Borznyanskiy Milk Plant	Ukraine	100%	100%
LLC Molprod	Ukraine	100%	100%
LLC Syr-Trading	Ukraine	100%	100%
LLC Ukrainian Milk House	Ukraine	100%	100%
LLC Molochny pan	Ukraine	100%	100%
LLC Magazyn Moloko	Ukraine	100%	100%
LLC Moloko Polissia	Ukraine	83,73%	70,0%
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%	-
LLC Avtek Rent Service	Ukraine	100%	-
AF Konotopska	Ukraine	45%	-

2 Operating environment of the Group

Operating environment of the Group.
Russia and Ukraine represent major geographic areas where the Group operates. Both Russia and Ukraine display certain characteristics of emerging markets, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on both economies and the financial situation in the financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian and Ukrainian economies experienced moderate recoveries of economic growth. The recoveries was accompanied by lower refinancing rates, stabilisation of the exchange rates of the local currencies against major foreign currencies, and increased liquidity levels in the banking sectors.
On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. The new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.
The tax, currency and customs legislation within the Russian Federation is also subject to varying interpretations and frequent changes. The future economic directions of Russia and Ukraine are largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the respective governments, together with tax, legal, regulatory and political developments.
Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of significant accounting policies

Basis of presentation. These consolidated financial statements of the Group have been prepared in accordance with the requirements of International Financial Reporting Standards (further - IFRS) as endorsed by the European Union and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

These consolidated financial statements of the Group have been prepared using the historical cost convention, as modified by the revaluation of property, plant and equipment, and certain financial instruments measured in accordance with the requirements of IAS 39 *Financial instruments: recognition and measurement.*

(a) New standards, interpretations and amendments effective from 1 January 2010

Revised IFRS 3 'Business combinations': From 1 January 2010, the Group has applied revised IFRS 3 *Business combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared to IFRS 3: (i) All considerations transferred to acquire a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of income; (ii) The acquirer can elect to measure any non-controlling interest on a transaction-by-transaction basis, either at fair value as of the acquisition date or at its proportionate interest in the identifiable assets and liabilities of the acquiree; (iii) When an acquisition is achieved in successive share purchases (step acquisition), the identifiable assets and liabilities of the acquiree are recognized at fair value when control is obtained. A gain or loss is recognized in profit or loss for the difference between the fair value of the previously held equity interest in the acquiree and its carrying amount; and (iv) All acquisition related costs are to be expensed.

These standard is applicable to Milkiland prospectively for business combinations as of 2010.

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

- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS.
- Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement.
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment.
- IFRIC 17, Distribution of Non-Cash Assets to Owners.
- IFRIC 18, Transfers of Assets from Customers.

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:*

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013). The standard was not yet endorsed by EU.
- Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Prepayments of a minimum funding requirement (Amendment to IFRIC 14) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).
- Improvements to International Financial Reporting Standards (issued in May 2010, effective dates vary standard by standard, but most are effective for annual periods beginning on or after 1 January 2011)
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).
- 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).

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.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intergroup transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Government grants. Government grants received on capital expenditure are included in other non-current liabilities and amortised during the useful life of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the Group. Where retention of a government grant is dependent on the Group satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated statement of comprehensive income or amortised during the useful life of the asset purchased.

Property, plant and equipment. Property and equipment is stated at revaluated cost, net of depreciation and accumulated provision for impairment.

Valuation of property and equipment is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Fair value is based on valuations by external independent valuers.

Depreciation is charged to the consolidated income statement on a straight line basis to allocate costs of individual assets to their residual value over their estimated useful lives of the assets:

	Useful life, years
Buildings, constructions	20-50
Plant and equipment	5-25
Other	1-10

Construction in progress represents the cost of property, plant and equipment, including advances to suppliers, which has not yet been completed. No depreciation is charged on such assets until they are available for use.

Any revaluation surplus is credited to the asset revaluation reserve included in the net assets attributable to participants in the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation discount is recognised in profit or loss, except that a discount directly compensates a previous surplus of the carrying amount of these assets during a previous period and refers to the revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between the depreciation based on the revaluation carrying amount of the asset and depreciation based on the asset original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated with immediate decrease of the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on retirement of the asset (calculated as the difference between the net disposals proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets. Intangible assets acquired separately are measured on initial recognition at an original cost. The original cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the reporting year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either definite or indefinite.

Intangible assets with definite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a definite useful life are reviewed at least at each reporting year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with definite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to definite is made on a prospective basis.

Software is amortised under the straight-line method over its useful life comprising 2-4 years.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on acquisitions of subsidiaries is included in Intangible assets in the balance sheet. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Impairment of non-financial assets. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the Statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to amortize the asset's revised carrying amount, less any residual value, on regular basis over its remaining useful life.

Inventories. Inventories are valued at the lower of cost and realizable value.

Inventory is accounted for at FIFO method.

Cost includes acquisition costs and the costs related to inventories delivery to their location and bringing to the working condition.

Cost of the inventories manufactured and production in progress includes the cost of raw materials, direct labour input and other direct expenses, as well as appropriate overheads (as calculated in conditions of ordinary use of production capacities).

Net realizable value is the estimated selling price less all estimated production costs and the estimated business and distribution costs.

Financial instruments. Financial instruments reported in the Group's balance sheet include financial investments, loans provided, trade and other receivables, cash and cash equivalents, loans received, trade and other accounts payable. Financial instruments initially are stated at fair value plus transaction costs, except financial instruments at fair value through profit and loss. Financial instruments are stated in the balance sheet at the moment of bargain in respect of an appropriate financial instrument. Valuation order of financial instrument will be considered below.

Financial instrument or some part of financial instrument is written off in the financial statements when the Group loses its rights or repays liabilities related to this financial instrument. When financial asset is written off, the difference between received and accrued compensation and carrying amount is recognised in the income statement. When a financial liability is written off, the difference between paid or accrued compensation and a current carrying amount is recognised in the income statement.

Recognition of financial instruments. The Group recognizes financial assets and liabilities in its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

In compliance with IAS 39 financial assets are divided into 4 categories as follows:

- financial assets at fair value through profit and loss;
- loans and accounts receivable;
- investments held to maturity;
- financial assets available for sale.

When a financial asset or financial liability is recognized initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. When the Group becomes a contractual party, it determines embedded derivatives in the contract, if any. Embedded derivatives are separated from the host contract that is not assessed at fair value through profit or loss in case the economic character and risks of embedded derivatives materially differ from similar quotients of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed or appropriate, reevaluates this designation at each financial year-end.

All acquisition or sale transactions related to financial assets on `standard terms` are recognized at the transaction date, i.e. at the date when the Group undertakes an obligation to acquire an asset. Acquisition or sale transactions on `standard terms` mean acquisition or sale of financial assets that requires to supply an asset within the term determined by legislation or rules accepted in a certain market.

Financial assets at fair value through profit and loss

A financial asset is classified at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognized in profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are reflected at amortized cost using the effective interest method after their initial evaluation. Amortized cost is calculated taking into account all discounts or bonuses that arose at acquisition and includes commissions being an integral part of the efficient interest rate as well as transaction costs. Gains and expenses are recognized in the statement of comprehensive income when assets are derecognized or impaired, as well as through the amortization process.

After initial recognition, extended loans are measured at fair value of the funds granted that is determined using the effective market rate for such instruments, if they materially differ from the interest rate on such loan granted. In future loans are measured at amortized cost using the effective interest rate method. Difference between the fair value of the funds granted and loan reimbursement amount is reported as interest receivable during the whole period of the loan. Amortized cost is calculated taking into account all transaction expenses and discounts or bonuses that arose at repayment.

Loans that mature more than 12 months after the consolidated statement of financial position date are included into non-current assets.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Investments held-to-maturity

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Fair value

The estimated fair value of financial instruments and liabilities is determined by reference to market information using appropriate methods of evaluation. However, a qualified opinion would be necessary to interpret marketing information for the purpose of fair value estimation. Correspondingly, at evaluation it is not necessary to indicate the estimated realization amount. Using different marketing assumptions and/or valuation techniques might affect the fair value significantly.

The estimated fair value of financial assets and financial liabilities is determined using the discounted cash flows model and other appropriate valuation methods at the year end; it does not indicate the fair value of such instruments at the reporting date of these consolidated financial statements. Such estimations do not report any bonds or discounts that might result from the proposal to sell simultaneously the whole package of certain financial instruments of the Group. The fair value estimation is based on assumptions as to future cash flows, current economic situation, risks inherent to various financial instruments and other factors.

The fair value estimation is based on existing financial instruments without any attempts to determine the cost of an expected futures transaction and the cost of assets and liabilities not considered to be financial instruments. Besides, tax ramification (branching) related to realization of non-realized profit and loss might impact the fair value estimation and therefore was not accounted for in these consolidated financial statements.

Financial assets and financial liabilities of the Group include cash and cash equivalents, receivables and payables, other liabilities and loans. Accounting policy as to their recognition and evaluation are presented in the relevant sections of these Notes.

During the reporting period the Group did not use any financial derivatives, interest swaps or forward contracts to reduce currency or interest risks.

Non-derivative financial liabilities

At initial recognition financial liabilities can be attributed to those estimated at fair value through profit and loss, if the following criteria are met: (i) attributing to this category excludes or materially reduces inconsistence in accounting methods that might otherwise arise at liability assessment or recognition of profit or loss related to such liability; (ii) liabilities comprise a part of financial liability group that is being managed and results of which are assessed at fair value in compliance with risks management policy; (iii) financial liability includes an embedded derivative that should be reported separately in the consolidated financial statements.

As at 31 December 2010 the Group had no financial liabilities that could be attributed to those estimated at fair value through profit and loss. Trade payables and other short-term monetary liabilities, which are initially recognized at fair value, subsequently carried at amortized cost using the effective interest method. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

Interest expense in this context includes initial transaction costs and discount payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets reported at amortized cost

If there is objective evidence that an impairment loss has been incurred in loans and accounts receivable that are reported at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at initial effective interest rate for such financial asset (i.e. at the effective interest rate calculated at initial recognition). The carrying amount of the asset is reduced directly or using the reserve. The loss amount is recognized in the statement of comprehensive income.

The Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset into a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is recovered. Any subsequent loss recovery is recognized in the statement of comprehensive income in the amount that the carrying amount of an asset should not exceed its amortized cost at the recovery date.

Provision for impairment loss is created in receivables in case there is objective evidence (e.g. a possibility of the debtor's insolvency or other financial difficulties) that the Group might not gain all amounts due to the delivery terms. Carrying amount of receivables is than reduced through the allowance account. Impaired debts are derecognized as soon as they are considered to be bad.
<u>Financial investments available for sale</u>

Impairment losses on available for sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

De-recognition of financial assets and liabilities

<u>Financial assets</u>
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

* the rights to receive cash flows from the asset have expired;
* the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
* The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be requested to repay.

<u>Financial liabilities</u>

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is derecognized and a new liability is recognized with recognition of the difference in the respective carrying amounts in the statement of comprehensive income.

Interest-bearing loans and borrowings. All loans and borrowings are initially recognized at the fair value of the cash amount received less loan related costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at an amortized cost using the effective interest rate method. Gains and losses are recognized in net profit or loss when liabilities retired, as well as through the amortization process.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.
Leases. The Group leases certain property, plant and equipment. Leases of property, plant, and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Contingencies. Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all provisions to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

Employee Benefits. Wages, salaries, contributions to the state pension and social insurance funds, paid annual and sick leave, bonuses and non-monetary benefits are accrued in the period when the associated services are rendered by the employees of the Company.

Revenue and expense recognition. Revenue is recognized when the title of the product passes to the customer and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.
The cost of products sold is recognized at the same time as the corresponding revenue.

Revenue from services rendering under the operating lease is stated in the reporting period when such services were rendered after completion certain transaction estimated on the basis of factual rendered services proportionally to a full scope of services that are to be rendered.

Expenses are accounted for when incurred and reported in the statement of comprehensive income in the period to which they relate.

Income taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred income tax is provided using the consolidated statement of financial position liability method on temporary differences at the reporting date- between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except for:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent company and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except for:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the-transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statement of financial position date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or (substantively enacted) at the consolidated statement of financial position date. Income tax relating to items recognized directly in net assets attributable to participants is recognized in the net assets attributable to participants and not in the statement of comprehensive income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and they relate to income taxes imposed by the same taxation authority on the same entity.

Loans provided. Loans provided are accounted for at an amortized cost using the effective interest rate method.

(All amounts in euro thousands unless otherwise stated)

Trade and other accounts receivable. Trade and other receivables are stated at an amortised cost using the effective interest rate method. Provisions in respect to non-recoverable amounts estimated as difference between carrying amount of assets and current value of future cash flows discounted using the effective interest rate calculated at initial recognition, are stated in the income statement, if any impairment evidences of assets are available.
Cash and cash equivalents. Cash and cash equivalents include cash in banks and cash desks, bank deposits and high liquid investments with maturity up to three months that can be easily converted to respective cash funds and have insignificant risk of their cost change.

Foreign currency

Functional and presentation currency
Items included in these financial statements of each of the Group's entities are measured in the currency that applies to the primary economic environment in which the entities operate (the functional currency). The consolidated figures are presented in euros, the Group's reporting currency. The group has decided to use euro as the presentation currency because of the listing at the Warsaw Stock Exchange.

Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group's entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is recognised through profit and loss. At each balance sheet dates foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet date.

Non-monetary assets and liabilities carried at historical cost are retranslated at the rates prevailing at the date of the transaction. Non-monetary assets and liabilities carried at fair value are retranslated at the rates prevailing at the date when the fair values were determined. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of property revaluation under IAS 16 which are recognised in other comprehensive income.

Foreign operations
The financial statements of subsidiaries and associates are prepared in their functional currencies, which are determined based on the primary economic environment in which they operate.
Upon consolidation, the assets and liabilities of foreign operations 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 year ended 31 December 2009	1.3949	10.8679	44.1299
As at 31 December 2009	1.4338	11.4489	43.3883
Average for year ended 31 December 2010	1.3267	10.5203	40.2980
As at 31 December 2010	1.3362	10.6384	40.3331

Value added tax (VAT). VAT during sale should be paid to the tax authorities as payments from customers are received. VAT paid during acquisition of goods and services is to be deducted to VAT received during sale, when payment is made for purchased goods and services. Tax authorities allow offsetting VAT. VAT in respect of acquisitions and sales, when settlement is completed at the balance sheet date (deferred VAT) is stated in the balance sheet by separate amounts as current assets or liabilities. If the provision was formed to doubtful receivables, this provision is reported in full scope including VAT. Deferred liability on VAT is still being recognised in the financial accounting until receivables are repaid or written off in order provided by the Ukrainian financial accounting rules.

Dividends. Dividends are stated at the date they are declared by shareholders in the general meeting. Amount of the Group's retained earnings that under the current legislation can be transferred to allocation between shareholders, is calculated on the basis of respective financial statements of separate entities of the Group prepared under NAS. These amounts might differ significantly from those calculated under IFRS.

4 Significant accounting estimates and judgments

The preparation of the financial statements requires the management to make various estimations and assumptions that affect reporting values of the assets and liabilities as well as disclosure of information on contingent assets and liabilities at the balance sheet date. Actual results might differ from the current estimations. The estimations are periodically reviewed. Should the adjustments be needed they are reported in the financial results of the period when they became aware.
Below are the main assumptions as to future events and other sources of uncertainties of estimates at the reporting dates that are of a great risk of the necessity to make significant adjustments to the carrying amount of assets and liabilities during the next reporting year:

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

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

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

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

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

(All amounts in euro thousands unless otherwise stated)

5 Business combinations

In 2010 the Group acquired 18.64% of non-controlling interest in JSC Ostankino Dairy Combine from minority shareholders having paid EUR 7,339 thousand. The result of the acquisition at the amount of EUR 552 thousand is recognised directly in equity.

Net assets of Ostankino Dairy Combine as at 31 December 2010	42,332
share in net assets acquired (18.64%)	7,891
Consideration paid	(7,339)
Access of share in net assets acquired over consideration paid	**552**

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 55% (2009: 50%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 38% (2009: 43%) of Group's revenue;

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

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

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

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

(All amounts in euro thousands unless otherwise stated)

The segment information by country for the year ended 31 December is as follows:

	2010			2009		
	Russia	**Ukraine**	**Total**	**Russia**	**Ukraine**	**Total**
Total segment revenue	100,347	178,823	279,170	87,747	124,716	212,463
Inter-segment revenue	(20,675)	-	(20,675)	(12,455)	-	(12,455)
Revenue from external customers	**79,672**	**178,823**	**258495**	**75,292**	**124,716**	**200,008**
Adjusted EBITDA	**4,286**	**40,070**	**44,356**	**5,792**	**26,752**	**32,544**
Depreciation and amortisation	3,340	6,324	9,664	2,309	5,356	7,665

The segment information by product for the year ended 31 December is as follows:

	2010				2009			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	162,080	97,018	20,072	279,170	112,433	86,687	13,343	212,463
Inter-segment revenue	(20,675)	-	-	(20,675)	(12,455)	-	-	(12,455)
Revenue from external customers	**141,405**	**97,018**	**20,072**	**258,495**	**99,978**	**86,687**	**13,343**	**200,008**
Adjusted EBITDA	33,834	7,773	2,749	44,356	23,116	7,942	1,486	32,544
Depreciation and amortisation	3,605	5,137	922	9,664	3,145	3,801	719	7,665

A reconcilliation of adjusted EBITDA to profit before tax:

	2010	**2009**
Adjusted EBITDA	**44,356**	**32,544**
Other segments EBITDA	(44)	(84)
Total segments	**44,312**	**32,460**
Depreciation and amortisation	(9,664)	(7,665)
Non-reccuring consulting and legal fees	1,943	(1,007)
Discounts on VAT bonds	(1,656)	-
Loss/(gain) from disposal and impairment of non-current assets	(1,764)	(1,587)
Finance costs - net	(11,528)	(13,333)
Foreign exchange loss	204	(947)
Profit before tax	**21,847**	**7,921**

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

(All amounts in euro thousands unless otherwise stated)

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 years ended 31 December were as follows:

Entities under common control:	**2010**	**2009**
Sales revenue	2,723	3,207
Finance expenses on other borrowings	(1,563)	(32)
Finance income on trade and other accounts receivable	-	423

Ultimate shareholders:	**2010**	**2009**
Finance expenses on other borrowings	(226)	(202)

The outstanding balances due from/(to) related parties as of 31 December were as follows:

Entities under common control:	**2010**	**2009**
Trade accounts receivable	287	756
Advances paid	-	298
Other accounts receivable	272	1,050
Non-current loans and borrowings from non-financial institutions	-	(4,791)

Ultimate shareholders:	**2010**	**2009**
Current loans from non-financial institutions	2,096	1,291

Consulting services in relation to the Company's IPO at the amount of EUR 419 thousand were reinvoiced by direct shareholder and charged to share premium.

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

At 31 December 2010, the Company's borrowings and fulfilment of contract obligations were secured by ultimate shareholders' guarantees in the amount of EUR 5,826 thousand (2009: EUR 5,969 thousand). There is no compensation in relation to this guarantee.

Key management compensation

Key management includes Vice President, General Director, Finance Director, Production Director, Commercial Director, Sales Director, Director of Raw Materials Department. The short-term employee benefits paid or payable to key management for employee services is EUR 3,454 thousand (2009: EUR 641 thousand), including EUR 1,500 thousand of bonus accrued and paid for the results of financial year 2009 and EUR 1,281 thousand of bonus accrued for 2010 financial year.

8 Cash and cash equivalents

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

	2010	**2009**
Short term deposits	27,736	3,736
Cash in bank and cash on hand	10,021	2,940
	37,757	**6,676**

As at 31 December 2010, short term deposits at the amount of EUR 4,606 thousand (2009: EUR 2,940 thousand) have been pledged as collateral for short-term bank loans (Note 16).
An analysis of the Group's cash and cash equivalents by currency is provided in note 30.

(All amounts in euro thousands unless otherwise stated)

9 Trade and other accounts receivable

	2010	2009
Trade accounts receivable	20,178	17,945
Other financial assets	272	-
Allowance for doubtful debts	(2,391)	(2,443)
Total trade accounts receivable	**18,059**	**15,502**
Other financial receivables	-	515
Total financial assets within trade and other receivables	**18,059**	**16,017**
Advances issued	3,269	2,111
Other receivables	4,228	6,600
Allowance for doubtful debts	(3,386)	(2,942)
	22,170	**21,787**

As at 31 December 2010 trade receivables of EUR 6,989 thousand (2009: EUR 11,049 thousand) were past due, but not impaired. They relate to the customers of no default history. Based on historic information, the company creates the allowance for doubtful debts against trade receivables past due.
The analysis of credit quality of trade and other financial receivables is as follows:

	2010		2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Current and not impaired				
Retailors	1,908	-	2,121	-
Dealers and wholesalors	327	-	556	-
Interest receivable	-	272	-	-
Total current and not impaired	**2,235**	**272**	**2,677**	**-**
Past due but not impaired				
- less than 30 days overdue	6,908	-	11,017	-
- 30 to 60 days overdue	81	-	32	-
- 60 to 90 days overdue	-	-	-	-
- 90 to 360 days overdue	-	-	-	-
- over 360 days overdue	-	-	-	-
Total past due but not impaired	**6,989**	**-**	**11,049**	**-**
Individually determined to be impaired (gross)				
- less than 30 days overdue	7,234	-	108	-
- 30 to 60 days overdue	1,530	-	1,828	-
- 60 to 90 days overdue	87	-	336	-
- 90 to 360 days overdue	653	-	868	-
- over 360 days overdue	1,450	-	1,079	-
Total individually impaired	**10,954**	**-**	**4,219**	**-**
Less impairment provision	(2,391)	-	(2,443)	-
Total	**17,787**	**272**	**15,502**	**-**

The carrying amounts of the Company's trade and other receivables approximate their fair value.

(All amounts in euro thousands unless otherwise stated)

Maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Movements on the group provision for impairment of trade receivables are as follows:

	2010	2009
Balance 1 January	2,443	4,074
Provided during the year	850	827
Receivable written off during the year as uncollectible	(32)	(835)
Unused amounts reversed	(1,048)	(1,413)
Exchange difference	178	(210)
Balance 31 December	**2,391**	**2,443**

The movement on the provision for impaired receivables has been included in other expenses, net line in the consolidated statement of comprehensive income.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 30.

The Group does not hold any collateral as security.

10 Inventories

	2010	2009
Raw and other materials	10,267	9,417
Finnished goods and work in progress	16,899	9,449
	27,166	**18,866**

At 31 December 2010 and 31 December 2009 bank borrowings are secured on inventories the value of EUR 2,328 thousand (2009: 0) (note 16).

As at 31 December 2010 inventories are stated net of provision for obsolescence at the amount of EUR 362 thousand (2009: nil).

11 Other taxes receivable

	2010	2009
VAT recoverable	20,779	8,551
Payroll related taxes	86	-
Other prepaid taxes	197	193
	21,061	**8,744**

VAT receivable as at 31 December 2010 is shown net of provision at the amount of EUR 8,241 thousand (31 December 2009: EUR 2,761 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 30% of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

(All amounts in euro thousands unless otherwise stated)

12 Goodwill

The goodwill of EUR 2,117 thousand (2009: EUR 1,968 thousand) is a result of acquisition of Ostankino Dairy Combine in January 2008. Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to a Russian company, with Russian Roubles being the functional currency, goodwill is translated each year as part of the translation of the foreign operation. Translation differences are presented in other comprehensive income:

	2010	2009
Balance at 1 January	1,968	2,060
Foreign currency translation	149	(92)
Balance at 31 December	**2,117**	**1,968**

Impairment test for goodwill

Impairment testing of goodwill is performed annually. The aggregate carrying amount of goodwill is allocated to the one cash-generating unit that represent Ostankino Dairy Combine.

The recoverable amounts of the cash-generating unit are based on value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 31 December 2013.

Management determined budget revenues based on past performance and its expectation of market development. Discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Management expectations and other input to the calculation such as discount rate, market size and market shares reflect the current economic climate and market developments relevant to the segments.

The key assumptions used for the value in use calculations are as follows:

- Cash flows were projected based on actual operating results and the five-year business plan.
- A cash-generating unit specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

	2010	2009
Pre-tax discount rate	16.29%	17.41%
Revenue growth rate for the five-year period	7% - 10%	3% - 10%
Net profit growth rate for the five-year period	4% - 11%	3% - 11%
Revenue growth rate after the five-year period	0%	0%

Revenue growth rate assumption has slighthly increased since 2009 as the market is expected to grow a bit higher than was expected in 2009 due to recovery of economy from the financial crisis.

The outcome of the impairment tests is that the recoverable amounts exceed the carrying amounts of the cash-generating units and accordingly no impairment charge has been recorded in 2010 and in 2009. In addition to the impairment test, the principal assumptions were subject to sensitivity analyses, which led to the conclusion that no impairments would arise from reasonable possible changes in a key assumption.

(All amounts in euro thousands unless otherwise stated)

13 Property, plant and equipment and intangible assets

	Land and Bildings	Plant and Eqipment	Other	Constructions in progress	Intangibl e assets	Total
At 1 January 2009						
Cost of valuation	84,662	36,788	7,422	6,364	472	135,708
Accumulated depreciation and amortisation	(8,775)	(10,042)	(4,446)	-	(130)	(23,393)
Net book value	**75,887**	**26,746**	**2,976**	**6,364**	**342**	**112,315**
Year ended 31 December 2009						
Opening net book value	**75,887**	**26,746**	**2,976**	**6,364**	**342**	**112,315**
Additions	116	1,099	945	-	54	2,214
Depreciation and amortisation	(2,677)	(3,579)	(1,392)	-	(23)	(7,671)
Transfers	212	(2,371)	3,495	(1,362)	26	-
Revaluation	15,761	2,600	592	(114)	1	18,840
Disposals	(24)	(25)	(32)	-	(37)	(119)
Exchange rate difference	(3,674)	(1,107)	(325)	(270)	(24)	(5,397)
Closing net book value	**85,601**	**23,363**	**6,259**	**4,618**	**339**	**120,182**
At 31 December 2009						
Cost of valuation	89,489	26,331	9,576	4,618	464	130,480
Accumulated depreciation and amortisation	(3,887)	(2,967)	(3,317)	-	(125)	(10,298)
Net book value	**85,602**	**23,364**	**6,259**	**4,618**	**339**	**120,182**
Year ended 31 December 2010						
Opening net book value	**85,602**	**23,364**	**6,259**	**4,618**	**339**	**120,182**
Additions	1,337	3,306	1,220	350	32	6,245
Depreciation and amortisation	(3,063)	(4,866)	(1,763)	-	(47)	(9,739)
Transfers	305	(641)	336	-	-	-
Revaluation	1,998	378	105	-	-	2,481
Disposals	(43)	(266)	(299)	(963)	(2)	(1,573)
Exchange rate difference	6,508	1,782	461	354	25	9,130
Closing net book value	**92,644**	**23,057**	**6,319**	**4,359**	**347**	**126,726**
At 31 December 2010						
Cost of valuation	99,424	30,244	11,440	4,359	535	146,002
Accumulated depreciation and amortisation	(6,780)	(7,187)	(5,121)	-	(188)	(19,276)
Net book value	**92,644**	**23,057**	**6,319**	**4,359**	**347**	**126,726**

At 31 December 2010 bank borrowings are secured on properties for the value of EUR 57,266 thousand (2009: EUR 64,405 thousand) (note 16).

The Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value as at 31 December 2010 and 31 December 2009 was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

As a result of the revaluation, a revaluation surplus of EUR 2,705 thousand (2009: EUR 20,433 thousand) and specific impairments of EUR 224 thousand (2009: EUR 1,610 thousand) (note 23) were recorded.

(All amounts in euro thousands unless otherwise stated)

Should there be no revaluation the net book value of property, plant and equipment and intangible assets as at 31 December would be:

	Land and buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
31 December 2009	16,196	16,942	5,019	4,618	339	**43,115**
31 December 2010	17,284	14,718	4,447	4,359	347	**41,155**

At 31 December 2010 the gross carrying value of fully depreciated property, plant and equipment is EUR 1,409 thousand (2009: EUR 2,464 thousand).

14 Trade and other payables

	2010	2009
Trade payables	7,780	9,715
Wages and salaries payable	1,234	1,066
Accounts payable for fixed assets	193	275
Accrual for audit fees and consulting services	616	86
Accruals for bonuses	1,871	-
Interest payable	365	333
Total financial liabilities within trade and other payable	**12,059**	**11,475**
Advances received	1,074	780
Other accounts payable	971	571
Accruals for employees’ unused vacations	1,425	750
	15,529	**13,576**

Financial liabilities are normally settled within 60-days period.

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

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 30.

15 Other taxes payable

	2010	2009
VAT payable	130	116
Payroll related taxes	557	82
Other taxes payable	324	624
	1,011	**822**

(All amounts in euro thousands unless otherwise stated)

16 Interest bearing loans and borrowings

	2010	2009
Current		
Interest bearing loans due to banks	28,394	23,037
Loans from non-financial institutions	5,742	1,291
	34,136	**24,328**
Short-term portion of long-term debt		
Interest bearing loans due to banks	9,518	6,658
Finance leases	110	-
	9,628	**6,658**
Total current borrowings	**43,764**	**30,986**
Non-current		
Interest bearing loans due to banks	32,566	52,747
Loans from non-financial institutions	3,287	9,202
Finance leases	219	-
Total non-current borrowings	**36,072**	**61,949**
Total borrowings	**79,836**	**92,935**

The exposure of the Company's borrowings to interest rate changes and the contractual reprising dates at 31 December are as follows:

	2010	2009
6 months or less	29,210	16,921
6-12 months	14,554	14,065
1-3 years	21,135	5,080
3-5 years	14,937	56,870
	79,836	**92,935**

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

	2010					2009				
	USD	EUR	UAH	RUR	Total	USD	EUR	UAH	RUR	Total
12 months or less										
Outstanding balance, thousand EUR	11,737	-	8,838	23,189	**43,764**	4,714	1,488	8,305	16,479	**30,986**
Average interest rate, %	11.16	-	24.43	9.52	**12.97**	12.35	14.23	22.25	16.16	**18.21**
1-5 years										
Outstanding balance, thousand EUR	29,025	-	7,047	-	**36,072**	51,903	652	4,983	4,411	**61,949**
Average interest rate, %	11.67	-	18.69	-	**13.04**	10.5	12.46	16.75	3.5	**11.07**

At 31 December 2010 bank borrowings are secured on properties, plant and equipment (note 13), inventories (note 10), cash and cash equivalents (note 8).

17 Government grants

Agricultural companies of Milkiland Ukraine Group receive government subsidy in the form of VAT paid for their products by customers. Mentioned subsidy is set according to the Law of Ukraine “About VAT” and procedure of using the subsidy is set by Ukrainian Government every year. The subsidy at the amount of EUR 400 thousand (2009: EUR 339 thousand) is recognised as income (statement of comprehensive income).

In 2009 the Group received a EUR 140 thousand subsidy from the City of Moscow for a partial compensation of building and equipment renovations completed and put in service in 2009. The Group met all of its obligations to the grant provider in 2009 and recognised the grant of 140 thousand as deferred income and amortisation of it at the amount of EUR 18 thousand (2009: 18) as deduction of the related depreciation expense.

Deferred income is included in other non-current liabilities. The movement in deferred income during the year was as follows:

	2010	2009
Balance at the beginning of the year	496	389
Grant obtained during the year	-	140
Amortisation of government grant	(79)	(18)
Foreign exchange difference	37	(15)
Balance at the end of the year	**454**	**496**

The Group has a subsidised loan from the City of Moscow in the amount of EUR 3,632 thousand (2009: EUR 4,411) at preferential 4.5% interest rate (2009: 3.5%) (note 15). Under the loan agreement the Group is obliged to purchase established amounts of food products per year as well as to maintain related minimum stock levels. The Group met all of its grant obligations to the grant provider.

The Group obtained and recognised as a deduction of the related expense grant from the City of Moscow of EUR 715 thousand (2009: EUR 680 thousand) to compensate for the costs of packaging materials purchased from Russian supplier (note 20).

The Group obtained and recognised as deduction of the related finance expense grant from the City of Moscow of EUR 638 thousand (2009: EUR 346 thousand) to compensate for the finance expenses related to loans and borrowings used to purchase the natural milk (note 24).

18 Share capital

The movement authorised, issued and paid up share capital of Milkiland N.V. amounts to EUR 3,125 thousand (2009: EUR 2,500 thousand).

	2010		2009	
	Number	EUR 000	Number	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
Ordinary shares of 10c each				
At beginning of the year	25,000,000	2,500	25,000,000	2,500
Other issued for cash during the year	6,250,000	625	-	-
At end of the year	**31,250,000**	**3,125**	**25,000,000**	**2,500**

(All amounts in euro thousands unless otherwise stated)

On 6 December 2010, Milkiland N.V. sold 6.25 million newly issued (20%) and 750,000 existing shares (2.4%) to investors through initial public offering on Warsaw Stock Exchange and attracted EUR 52,781 thousand. The costs related to IPO at the amount of EUR 3,469 thousand have been deducted from share premium.

The increase of the share capital at the result of the IPO process is summarized in the following table:

	Share capital	Share premium	Total
Issued shares	625	52,156	52,781
IPO costs	-	(3,469)	(3,469)
	625	**48,687**	**49,312**

No reserves other than retained earnings may be used to pay dividends.

19 Revenue

Sales by product during the year ended 31 December was as follows:

	2010	2009
Cheese & butter	141,405	99,978
Whole milk products	97,018	86,687
Ingredients	20,072	13,343
Total	**258,495**	**200,008**

Regional sales during the year ended 31 December was as follows:

	2010	2009
Russia	163,881	127,756
Ukraine	82,887	62,052
Other	11,727	10,200
Total	**258,495**	**200,008**

20 Cost of sales

	2010	2009
Raw and other materials	121,049	90,055
Wages and salaries	8,791	7,883
Depreciation	8,396	6,405
Transportation costs	6,921	5,810
Gas	5,871	5,457
Electricity	3,825	3,687
Social insurance contributions	2,643	2,497
Repairs of property, plant and equipment	1,496	1,215
Water	510	847
Other	1,797	4,940
Cost of sold materials	-	1,179
	161,299	**129,975**

(All amounts in euro thousands unless otherwise stated)

In 2010 other materials are shown net of government grant at the amount of EUR 715 thousand (2009: 680) (note 17).

21 Selling expenses

	2010	2009
Transportation costs	8,378	9,108
Security and other services	2,363	2,136
Marketing and advertising	3,013	1,918
Wages and salaries	4,456	3,816
Social insurance contributions	1,104	923
Licence fees	214	143
Rental costs	264	131
Depreciation and amortisation	118	90
Other	510	422
	20,420	**18,687**

22 Administrative expenses

	2010	2009
Wages and salaries	14,405	8,181
Social insurance contributions	2,067	1,377
Taxes and other charges	1,270	1,416
Representative charges	1,833	997
Other utilities	2,937	2,345
Bank charges	1,670	1,322
Repairs and maintanance	1,482	1,292
Depreciation and amortisation	1,149	1,186
Consulting fees	968	1,726
Security and other services	824	1,039
Transportation costs	561	709
Property insuarance	686	512
Licence fees	539	460
Rental costs	316	307
Communication	259	228
Office supplies	120	70
Other	515	589
Total	**31,601**	**23,756**

(All amounts in euro thousands unless otherwise stated)

23 Other income and expenses

	2010	2009
Other operating income	(620)	(302)
(Gain)/loss from disposal of non-current assets	1,540	(186)
Gain from write off of accounts payable	(1,943)	(655)
Penalties	251	154
Loss from write off of inventories	635	423
Change in provision and write off of trade and other accounts receivable	97	(977)
Change in provision and write off of VAT receivable	9,337	3,747
Loss from revaluation of non-current assets	224	1,610
Other expenses	1,227	1,913
	10,748	**5,727**

24 Finance expenses, net

	2010	2009
Finance expenses		
- Bank borrowings	10,157	13,390
- Other borrowings	2,742	570
- Finance leases	38	226
	12,937	**14,186**
Finance income		
- Bank deposits	1,409	430
- Trade and other accounts receivable	-	423
	1,409	**853**

In 2010 finance expenses are shown net of government grant at the amount of EUR 638 thousand (2009: 346) (note 17).

25 Discount on VAT bonds sold

During 2010 the Group received reimbursement of value added tax (VAT) via state VAT bonds redeemable in 5 year period at the amount of EUR 9,050 thousand. The Group sold the VAT refund bonds to third parties with a discount of EUR 1,656 thousand.

26 Income tax

	2010	2009
Income tax expense – current	(1,611)	(892)
Deferred tax (expense) benefit – origination and reversal of temporary differences	1,426	1,137
Deferred tax expense (income) resulting from reduction in tax rate	332	-
Income tax (expense) benefit	**147**	**245**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2010 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%), Russian profit was levied at the rate of 20% (2009: 20%) The profit of two 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 2010 the Group has reflected the single tax at the amount of EUR 3 thousand (2009: EUR 4 thousand) in administrative expenses. In 2010 the tax rate for Panama operations was 0% (2009: 0%) on worldwide income.

(All amounts in euro thousands unless otherwise stated)

In 2010 the Ukrainian Government approved a revised tax code, according to which income tax rates are steadily reduced from 23% in April 2011 to 16% in 2016. The effect of the reduction of tax rates at the amount of EUR 3,660 thousand is charged to equity in relation to the revaluation reserve and EUR 332 thousand charged to income.

Reconciliation between the expected and the actual taxation charge is provided below.

	2010	2009
Profit/(loss) before taxation, including	**21,847**	**7,921**
Profit of companies levied a single agricultural tax (Ukrainian operations)	96,616	5,059
Loss of other Ukrainian companies	(66,084)	(29,456)
Profit/(loss) of Ostankino Dairy Combine	(1,783)	(38)
(Loss)/profit before income tax of non-Ukrainian companies	(6,902)	32,356
Income tax charge at statutory rate of 25% (Ukrainian operations)	(16,521)	(7,364)
Income tax charge at statutory rate of 20% (2008: 24%) (Russian operations)	(357)	(8)
Income tax charge at statutory rate of 25.5% (Dutch operations)	-	-
Income tax charge at statutory rate of 0% (Panama)	-	-
Change in deferred taxes resulting from reduction in tax rate	(332)	-
Provision in respect of irrecoverable deferred tax asset	4,077	3,679
Reassessment of deferred tax liability	(114)	238
Tax effect of items which are permanently not deductible or assessable for taxation purposes	**13,100**	**3,210**
Income tax expense/(income)	**(147)**	**(245)**

At the existing Group’s structure tax losses and current tax assets of one company cannot be offset against current income tax liabilities of another company. Correspondently, taxes may be accrued even if there is a net consolidated tax loss. Thus, deferred tax assets of one company of the Group are not subject to offsetting against deferred tax liabilities of another company of the Group. The deferred tax liabilities and assets reflected in the consolidated balance sheets as at 31 December are as follows:

	2010	2009
Deferred tax liability	(47,761)	(25,993)
Deferred tax asset	30,503	5,545
	(17,258)	**(20,448)**

(All amounts in euro thousands unless otherwise stated)

Differences between IFRS and the Ukrainian tax legislation result in temporary differences between the carrying amount of assets and liabilities with the purpose to prepare financial statements and a tax basis for the income tax calculation. The following tables summarise the components of temporary differences that give rise to deferred tax assets and liabilities:

	31 December 2009	Deferred tax income or expense recognised in profit or loss	Deferred tax relating to items that are charged or credited directly to equity	Currency Translation	31 December 2010
Recognised deferred tax assets attributable to the following elements:					
Trade and other receivables	1,158	179	-	88	1,425
Inventories	12	(11)	-	1	2
Other non-current liabilities	100	(16)	-	8	92
Property, plant and equipment	-	11	-	-	11
Trade and other payables	187	2,872	-	(18)	3,041
Advances received	49,665	52,661	-	3,198	105,524
Other	62	72	-	5	139
Less accrued provision	(3,819)	(4,077)	-	(161)	(8,057)
Netting with deferred tax liabilities	(41,820)	(29,854)	-	-	(71,674)
Deffered tax assets	**5,545**	**21,837**	**-**	**3,121**	**30,503**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	-	322	-	(6)	316
Trade and other receivables	-	-	-	-	-
Advances paid and prepaid expenses	(48,828)	(52,141)	-	(3,226)	(104,195)
Property, plant and equipment	(18,985)	1,886	3,010	(1,467)	(15,556)
Netting with deferred tax assets	41,820	29,854	-	-	71,674
Deffered tax liabilities	**(25,993)**	**(20,079)**	**3,010**	**(4,699)**	**(47,761)**
Total deffered tax assets and liabilities	**(20,448)**	**1,758**	**3,010**	**(1,578)**	**(17,258)**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2009:

	31 December 2008	**Deferred tax income or expense recognised in profit or loss**	**Deferred tax relating to items that are charged or credited directly to equity**	**Currency Translation**	**31 December 2009**
Recognised deferred tax assets attributable to the following elements:					
Trade and other receivables	255	959	-	(56)	1,158
Inventories	188	(165)	-	(11)	12
Other non-current liabilities	78	25	-	(3)	100
Property, plant and equipment	599	(596)	-	(3)	-
Trade and other payables	186	16	-	(15)	187
Advances received	33,619	18,672	-	(2,626)	49,665
Other	248	(171)	-	(15)	62
Less accrued provision	-	(3,926)	-	107	(3,819)
Netting with deferred tax liabilities	(28,184)	(13,636)			(41,820)
Deffered tax assets	**6,989**	**1,178**	**-**	**(2,622)**	**5,545**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	26	(25)	-	(1)	-
Trade and other receivables	-	-	-	-	-
Advances paid and prepaid expenses	(36,351)	(15,160)	-	2,683	(48,828)
Property, plant and equipment	(16,684)	1,496	(4,522)	725	(18,985)
Other	(12)	12	-	-	-
Netting with deferred tax assets	28,184	13,636			41,820
Deffered tax liabilities	**(24,837)**	**(41)**	**(4,522)**	**3,407**	**(25,993)**
Total deffered tax assets and liabilities	**(17,848)**	**1,137**	**(4,522)**	**785**	**(20,448)**

(All amounts in euro thousands unless otherwise stated)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2010	2009
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	30,363	1,372
- Deferred tax asset to be recovered within 12 months	140	4,173
	30,503	**5,545**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(39,979)	(7,696)
- Deferred tax liability to be recovered within 12 months	(7,782)	(18,297)
	(47,761)	**(25,993)**
Deferred tax liabilities, net	**(17,258)**	**(20,448)**

Management assesses whether valuation allowances should be established against deferred tax assets based on consideration of all available evidence, both positive and negative. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry forward periods, the experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified.

The Company's ability to realise deferred tax assets depends on the ability to generate sufficient taxable income within the carry back or carry forward periods provided for in the tax law for each applicable tax jurisdiction.

As at 31 December 2010 deferred tax assets are shown net of provision for irrecoverable deferred tax assets at the amount of EUR 8,057 thousand (2009: 3,926)

27 Changes in presentation

In the course of preparation of financial statements for 2010 management has revised the classification of VAT receivable write off from administrative expenses to other income/(expenses) in the statement of comprehensive income for 2009.

Effects of reclassifications of statement of comprehensive income for 2009 are summarised in the table below:

	As previously reported	Reclassifi-cations	As reclassified
Statement of comprehensive income			
Administrative expenses	(26,250)	2,494	(23,756)
Other income/(expenses)	(3,233)	(2,494)	(5,727)

28 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.

(All amounts in euro thousands unless otherwise stated)

Insurance policies

The Group insures all significant property. As at 31 December 2010, 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.

In 2010 the Company insured its property, plant and equipment for a total amount of EUR 75,373 thousand (2009: EUR 87,012 thousand).

Acquisition of minority interest

According to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies, Milkiland N.V. is obliged to send a public offer about acquisition of other 166,679 ordinary registered shares to all minority shareholders of Ostankino Dairy Combine. Should all the minority shareholders exercise their sale option, Milkiland N.V. will be obliged to pay the total amount of EUR 3,016 thousand at 31 December 2010 (2009: EUR 3,556 thousand). Management is planning to send a public offer within 2011.

Guarantees for third parties

As at 31 December 2010 the Group had a guarantee of EUR 3,891 thousand (2009: EUR 5,440 thousand) granted for the benefit of third party under the credit line provided by OTP bank.

29 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 years ended 31 December 2010 and 2009 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 does not have any external requirements to the capital amount.

	2010	**2009**
Total borrowings	79,836	92,935
Less: cash and cash equivalents	(37,757)	(6,676)
Net debt	**42,079**	**86,259**
Total equity	122,978	50,210
Total capital	**165,057**	**136,469**
Net debt to capital ratio	**25.49%**	**63.21%**

(All amounts in euro thousands unless otherwise stated)

30 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Market risk

The Group takes on exposure to market risks. Market risks arise from commodity prices and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is continuously monitored. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Foreign exchange risk

Foreign currency risk is a risk of losses resulting from adverse movements in different currency exchange rates against the Group's functional currency. Foreign currency risks arise from potential future commercial transactions in foreign currencies, and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Company.

The Group primary exposure to foreign currency risk is related to borrowings, the majority of which are denominated in US dollars.

As of 31 December 2010 the Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR	USD	RUR	UAH	Total
Financial Assets					
Financial receivables within trade and other receivables	-	1,326	9,105	7,628	18,059
Cash and cash equivalents	12,087	17,218	57	8,395	37,757
Total financial assets	**12,087**	**18,544**	**9,162**	**16,023**	**55,816**
Financial Liabilities					
Loans and borrowings	-	40,761	23,189	15,885	79,836
Financial payables within trade and other payables	8	1,871	3,768	6,412	12,059
Total financial liabilities	**8**	**42,632**	**26,957**	**22,297**	**91,894**

Comparative information for 2009:

	EUR	USD	RUR	UAH	Total
Financial Assets					
Trade accounts receivable	-	896	9,724	5,397	**16,017**
Cash and cash equivalents	3	416	512	5,745	**6,676**
Total financial assets	**3**	**1,312**	**10,236**	**11,142**	**22,693**
Financial Liabilities					
Loans and borrowings	2,140	56,617	20,890	13,288	**92,935**
Trade and other payables	-	-	5,511	5,964	**11,475**
Total financial liabilities	**2,140**	**56,617**	**26,401**	**19,252**	**104,410**

(All amounts in euro thousands unless otherwise stated)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Group entities, with all other variables held constant:

	2010		2009	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 10% (2009: 10%)	(2,409)	(2,409)	(5,033)	(5,033)
USD weakening by 10% (2009: 10%)	2,409	2,409	5,033	5,033
Euro strengthening by 10% (2009: 10%)	1,208	1,208	(194)	(194)
Euro weakening by 10% (2009: 10%)	(1,208)	(1,208)	194	194
RUR strengthening by 10% (2009: 10%)	(1,780)	(1,780)	(181)	(181)
RUR weakening by 10% (2009: 10%)	1,780	1,780	181	181

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Company may occur if counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents and credit exposures to accounts receivable. The Company does not have derivative financial assets and available-for-sale investments.

(All amounts in euro thousands unless otherwise stated)

Cash and cash equivalents. Cash and cash equivalents are placed in major multinational and Ukrainian and Russian banks. Analysis by credit quality of bank balances is as follows:

	2010	2009
Ratings by Moody's		
Aa3	4	-
Baa1	44	-
Baa2	-	187
Baa3	-	142
Ba1	38	-
B3	2,780	2,180
Unrated	34,777	4,062
Cash	114	105
	37,757	**6,676**

Trade and other financial receivables. The monitoring and controlling of credit risk is performed by sales department and analyst department of the Company. The credit quality of each new customer is evaluated before the Company provides it with the standard terms of supply, including credit limit and payment delay. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. Customers that do not meet the credit quality requirements are supplied on a prepayment basis only. The Company controls following the credit limits of all existing customers as well as timely settlement of trade and other accounts receivable (note 8). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers' default risk.

Trade and other accounts receivable are mainly represented by receivables from customers, which are not aiming to obtain the credit rating in their operating activity.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 8.

	2010		2009	
	Carrying value	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Financial assets				
Cash and cash equivalents	37,757	37,757	6,676	6,676
Financial receivables	18,059	18,059	16,017	16,017
	55,816	**55,816**	**22,693**	**22,693**

Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has no significant interest-bearing assets.
Interest rate risk arises from movements in interest rates which could affect the Company's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense. The primary objective of the Group's interest rate management is carried out by the corporate finance department.

(All amounts in euro thousands unless otherwise stated)

Monitoring of current marker interest and analysis of the Group's interest-bearing position is performed as a part of interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

At the end of 2010 the Group had approximately 91% (2009: 66%) of its borrowings in fixed rate instruments and 9% (2009: 34%) in variable rate instruments.

If interest rates on borrowings had been 1% higher with all other variables held constant, post-tax profit for the year ended 31 December and equity as at 31 December would have been:

	2010	**2009**
Post tax profit	21,130	7,240
Equity	122,114	49,345

Liquidity risk

Liquidity risk is a risk, when the Group is not able to pay all liabilities after maturity date. The Group manages and controls over the liquidity. The Group uses procedures for preparation of budget and forecasting cash flows that provides availability of necessary funds for fulfillment its payment liabilities. Based on the estimated cash flows a decision is made to invest cash funds or attract financing if necessary. Performance of the credit risk policy management gives the Group sufficient cash to repay its debts in time.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, which approximate their fair value.

	Up to 6 months	**6-12 months**	**1 - 3 years**	**3 - 5 years**
Trade and other accounts payable (note 14)	12,059	-	-	-
Borrowings (note 16)	29,210	14,554	21,135	14,937
Total	**41,269**	**14,554**	**21,135**	**14,937**

Comparative information at 31 December 2009 is as follows:

	Up to 6 months	**6-12 months**	**1 - 2 years**	**3 - 5 years**
Trade and other accounts payable (note 14)	11,475	-	-	-
Borrowings (note 16)	16,921	14,065	5,080	56,870
Total	**28,396**	**14,065**	**5,080**	**56,870**

Financial instruments carried at fair value. The Group does not have available-for-sale investments. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Financial assets at amortised cost. An estimated fair value of instruments at fixed interest rate is based upon the method of discounted estimated future cash flows applying interest rates effective at the borrowed funds market for new instruments that provide for the same credit risk and the same maturity term. Discount rates depend on the credit risk from a contractor. The carrying amount of buyers and customers' accounts receivable equals to their fair value.

Financial liabilities at amortised cost. Fair value is evaluated based upon market quotations, if any. An estimated fair value of instruments with fixed interest rate and defined maturity date that do not have market quotation, is based on the discounting estimated cash flows applying interest rates for new instruments with the same credit risk and defined maturity date. The carrying amount of financial liabilities equals to their fair value.

31 Earnings per share

	2010	2009
Numerator		
Earnings used in basic and diluted EPS	21,777	8,109
Denominator, in thousand		
Weighted average number of shares used in basic and dilluted EPS	25,445	25,000

32 Audit fees

The fees listed below relate to the procedures applied to the company and its consolidated group entities by BDO Audit & Assurance B.V., the Netherlands, the external auditor as referred to in Section 1(1) of the Dutch Accounting Firms Oversight Act, as well as by other Dutch and foreign-based BDO individual partnerships and legal entities, including their tax services and advisory groups:

	BDO Audit & Assurance B.V.	BDO Accountants & Belastingadviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	34	-	102	**136**
Charged to share premium				
Other assurance engagements	90	-	23	**113**
Tax advisory fees	-	21	-	**21**
Non-assuarance engagements	-	-	8	**8**
Total	**124**	**21**	**133**	**278**

Amounts charged to share premium relate to the services provided by BDO in respect of the Company's IPO procedures (note 18).

Comparative information for 2009:

	BDO Audit & Assurance B.V.	BDO Accountants & Belastingadviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	59	-	170	**229**
Other assurance engagements	-	-	-	**-**
Tax advisory fees	-	4	-	**4**
Non-assuarance engagements	-	-	-	**-**
Total	**59**	**4**	**170**	**233**

33 Subsequent events

In January 2011, the Board of Directors of the Group approved the annual bonus of the CEO at the amount of 8% from the annual profit for 2010. This amount will be expensed as soon as these financial statements are approved by the AGM.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010

Statement of financial position as at 31 December 2010
(All amounts in euro thousands unless otherwise stated)

	Notes	2010	2009
ASSETS			
Current Assets			
Cash and cash equivalents		2,603	56
Amounts due from group companies	5	18,028	354
Other receivables and prepayments	5	90	-
Other taxes receivable	5	26	29
		20,747	**439**
Fixed assets			
Financial fixed assets			
Goodwill	3	2,117	1,968
Investments in subsidiaries	4	103,121	65,472
		105,238	**67,440**
TOTAL ASSETS		**125,985**	**67,879**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	8,838	30,317
Other payables	7	300	0
		9,138	**30,317**
Shareholder's equity			
Issued and paid-up share capital		3,125	2,500
Share premium		48,687	-
Revaluation reserve		34,664	32,689
Currency translation reserve		(12,070)	(14,152)
Unappropriate result		42,441	16,525
Total equity	6	**116,847**	**37,562**
TOTAL LIABILITIES AND EQUITY		**125,985**	**67,879**

Statement of income for the year ended 31 December 2010
(All amounts in euro thousands unless otherwise stated)

	Notes	2010	2009
Revenue from Group companies		116	800
Administrative expenses	8	(160)	(904)
Operating profit/(loss)		**(44)**	**(104)**
Finance income		47	-
Finance expense		(40)	
Foreign exchange gain/(loss), net		(369)	424
Profit before tax		**(406)**	**320**
Income tax		(95)	-
Share of profit of participating interests, after income tax		22,278	7,790
Profit/(loss) for the year		**21,777**	**8,110**

Notes to the Company financial statements

1. General

Reporting entity. Milkiland N.V. (the "Company") was incorporated on 13 July 2007. It changed its Articles of Association on 23 May 2008 amending its legal form to public limited liability company. The financial statements of the Company are included in the consolidated statements of Milkiland N.V.

2. Significant accounting policies

Basis of preparation.
The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e., only IFRS that is adopted for use in the EU at the date of authorisation) as explained further in the notes to the consolidated financial statements.

Foreign currency.
Assets and liabilities in foreign currencies are translated at the official rates of exchange ruling on balance sheet dates. Transactions in foreign currencies are translated at the applicable exchange rate on the transaction dates. The resulting exchange differences are accounted for in the income statement.

The financial statements of the foreign subsidiaries are translated at the rates of exchange ruling at the end of the accounting periods. Differences resulting from the translation of assets and liabilities of group companies at the beginning of the year at the yearend rates of exchange are shown as a separate item in shareholders' equity.

Financial fixed assets.
Subsidiaries and other participating interests in which significant influence may be exerted are stated at net asset value, using the equity method. The net asset value is calculated on the basis of the accounting policies included in these financial statements. Participating interests whose figures cannot be brought in line with these policies due to insufficient information, are valued based on the financial statements of the participating interest involved. Participating interests with a net asset value of less than nil are carried at nil. If the investing company is liable for the participating interest's debts, a provision will be formed.

Receivables
Accounts receivable are shown after deduction of a provision for bad and doubtful debts where appropriate.

The accounts receivable have a maturity date due within one year.

Cash and cash equivalents
Cash and bank balances are freely disposable, unless stated otherwise.

Current liabilities
The short term liabilities are due within one year.

Profit of participating interests. The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are not recognised.

(All amounts in euro thousands unless otherwise stated)

3. Goodwill

The goodwill of EUR 2,117 thousands is a result of a subsidiary acquisition and recognized as an asset. Goodwill is initially recognized as an asset during the primary evaluation. Impairment testing is performed annually.

For details see the consolidated note "Goodwill" (note 12).

4. Investments in participating interests

Participants	2010	2009
Ostankino Dairy Combine, Russia	39,738	30,613
DE Milkiland Ukraine	63,383	34,859
	103,121	**65,472**

For the full information on the Group structure refer to note 4 in consolidated financial statements.

Movement during the year is the following:

	2010	2009
At 1 January	65,472	48,137
Profit/(loss) for the year	22,278	7,790
Currency translation differences	2,816	(2,587)
Change in revaluation reserve	1,753	12,785
Acquisition of minority shares in Ostankino Dairy Combine, Russia	7,339	-
Effect from changes in tax rates (Ukraine)	3,463	-
Other direct equity movements	-	(653)
At 31 December	**103,121**	**65,472**

5. Receivables

	2010	2009
Receivables from group companies		
Milkiland Ukraine	18,028	-
Milkiland Corporation	-	354
Other receivables	90	
	18,118	**354**
Taxes and social security		
Input VAT	26	29

On December 13 Milkiland N.V. issued a loan to Milkiland Ukraine at the amount of EUR 18,000 thousand bearing interest rate of 3% per annum. Accrued interest as at 31 December 2010 amounts EUR 28 thousand (2009: nil).

(All amounts in euro thousands unless otherwise stated)

6. Shareholder's equity

The authorized share capital of the company amounts to EUR 5,000,000 consisting of 50,000,000 ordinary shares with a nominal value of EUR 0.10 each. At year-end 2010 3,125,000 (2009: 25,000,000) ordinary shares have been issued and fully paid up.

Movement in authorized, issued and paid up share capital is disclosed in note 18 to consolidated financial statements.

Movements in equity during the year may be specified as follows:

	Issued and paid-up share capital	Share premium	Currency translation reserve	Revaluation reserve	Retained earnings and unappropriate result	Total
Balance as at 31 December 2008	**2,500**	**-**	**(11,474)**	**22,758**	**6,230**	**20,014**
Total comprehensive income for the year	-	-	(2,678)	12,785	8,109	**18,216**
Realised revaluation reserve, net of income tax	-	-	-	(2,186)	2,186	-
Other movements	-	-	-	(668)	-	**(668)**
Balance as at 31 December 2009	**2,500**	**-**	**(14,152)**	**32,689**	**16,525**	**37,562**
Total comprehensive income for the year			2,428	5,216	21,777	29,421
Acquisition of minority shares in Ostankino			(346)	1,496	(598)	**552**
Share issue	625	48,687				**49,312**
Realised revaluation reserve, net of income tax				(4,737)	4,737	**-**
Balance as at 31 December 2010	**3,125**	**48,687**	**(12,070)**	**34,664**	**42,441**	**116,847**

7. Trade and other payables

	2010	2009
Accounts payable to Milkiland Corporation	8,770	4,405
Advance from Milkiland Corporation	-	25,912
Accounts payable to Milkiland Ukraine	68	-
	8,838	**30,317**
Other accounts payable	178	-
Current income tax liabilities	115	-
Wages and salaries payable	7	-
	300	**-**

(All amounts in euro thousands unless otherwise stated)

Accounts payable to Milkiland Corporation include a loan received from Milkiland Corporation at the amount of EUR 3,870 thousand (2009: nil) bearing interest rate of 3% per annum. Accrued interest as at 31 December 2010 amounts EUR 31 thousand (2009: nil). Accounts payable to Milkiland Corporation at the amount of EUR 4,869 thousand (2009: EUR 4,405 thousand) are free of interest rates.

8. Administrative expenses

	2010	**2009**
Consultancy fee	43	770
Tax advisory and audit fee	34	74
Management fee	77	45
Administrative fee	-	12
Legal fees	-	10
Other expenses	6	3
	160	**914**

Audit fees are disclosed in note 31 to consolidated financial statements.

9. Remuneration of Board of Directors members

Remuneration of Board of Directors members is disclosed in Corporate Governance Report included in Annual report

Board of Directors of Milkiland N.V.

Amsterdam, 15 April 2011

A. Yurkevych V. Rekov O. Yurkevych

P.I. Yokhym W. S. van Walt Meijer F.J. Ahern

INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders and the Management of Milkiland N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of Milkiland N.V., at Amsterdam as set out on pages 43 till 93. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2010 the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Milkiland N.V. as at December 31, 2010 its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Milkiland N.V. as at December 31, 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Rotterdam, 15 April 2011

BDO Audit & Assurance B.V.

on its behalf,

sgd. J.C. Jelgerhuis Swildens RA

CORPORATE INFORMATION

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Milkiland

Milkiland: Strong 2010 Performance for Future Growth

Press-release

Kyiv, 21st April 2011 - *Milkiland N.V. has published its consolidated annual report for the year 2010. The Group had a strong 2010 in financial terms and advanced in implementing its strategy of becoming an internationally recognised dairy company with leading positions in the CIS.*

Key highlights of 2010

Financials

- Financial performance: Revenue grew 29% to EUR 258.5 million. EBITDA 37% up, EBITDA margin improved to 17.1% in 2010. A record net profit of EUR 22 million (2.7 times increase compared to 2009)
- Financial position: Balance sheet strengthened with total debt reduced by 14%, net debt decreased by 51%. Net Debt/EBITDA ratio improved from 2.66 to 0.95. Working capital grew more than 4 times from EUR 11.0 million to EUR 47.7 million
- Net cash by the year end increased more than 5 times and reached EUR 37.8 million

Operations

- Milkiland's flagship brand *Dobryana* became international by gaining its positions in Russia
- The Group gained Ukrainian cheese exporter No. 1 position
- Milkiland N.V. became a public company after a successful IPO at the Warsaw Stock Exchange
- Consolidated 94% of shares in the Group's key Russian asset, Ostankino Dairy Combine

Milkiland's solid earnings performance was driven by a streamlined product and brand mix and a favourable price situation. The Group discontinued production of approximately 20% of the least profitable stock-keeping units and focused on products with higher margins. As a result, revenue grew 29% to EUR 258.5 million and EBITDA advanced 37% to EUR 44.3 million with EBITDA margin widening to 17.1%.

After the repayment of the most expensive loans, Milkiland's finance expense decreased by 9% to EUR 12.9 million. As a result of positive developments in operation efficiency and finance cost cutting, the Group's profit before tax grew 2.8 times to EUR 21.8 million. The Group's net profit for the year grew 169% to record EUR 22.0 million. Net profit margin in 2010 more than doubled and reached 8.5%.

The key 2010 event for Milkiland was fulfilling of its strategic goal to become a public company. The IPO of the Group's holding company Milkiland N.V. at Warsaw Stock Exchange was accomplished on December 6, 2010, resulting in 22.4% of the Company's shares being placed among Polish and European investors, with net proceeds of EUR 49.3 million to the Group. These funds are used to bring the business to a new level of market power and operational excellence.

Milkiland's strategic goal is to become an internationally recognized CIS dairy company with clear market leadership in cheese segment and a strong position in whole milk products. To support the growth and ensure quality offering, the Group aims to develop in-house raw milk production. For this purpose, Milkiland increased its land bank to 15,700 hectares.

Over the next five years, the Group targets to organically increase its volume sales by no less than 40% in fresh dairy, and by at least 30% in cheese. The value growth will be more significant, as Milkiland plans to advance more in the segments of higher value added.

Milkiland anticipates that in 2011 its marketing efforts will contribute to volume and value expansion in the segments of cheese and whole milk products. The Group's management plans to continue organic growth in 2011. The Group also closely watches acquisitions, as the fragmented diary industry structure offers a number of opportunities, both in Russia and Ukraine.

Comment by Anatoliy Yurkevich, Chairman of the Board of Directors, Milkiland N.V.

"We have made a very good progress in implementing our strategy of becoming an internationally recognized industry leader. The new set of tasks for Milkiland in 2011 includes expansion of our market share in core markets, investments into brand equity, and vertical integration into raw milk production. We also pursue M&A opportunities to further boost our growth".

About Milkiland N.V.

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

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

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

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