



## Interim Statement

### Results of the nine months of 2012

#### *Key facts and issues*

9 months of 2012 were marked by a number of developments that provided both advances and challenges to the business of Milkiland. On the positive side, re-introduction of government milk subsidy in Ukraine coupled with downward milk prices correction had a positive impact on prices and margins. On the other side, restrictions imposed by Russian authorities in February 2012 significantly limited Milkiland's export abilities.

As a result, in spring and summer of 2012, the company mainly focused on increasing profitability within limited opportunities for volume growth; volume recovery that started in fall had relatively little impact on Milkiland's 9 months financials. For three quarters of 2012 the Group posted revenue of EUR 206.6 million (growth of c.3% y-o-y) and generated EBITDA of EUR 27.3 million, which is c.5 % less compared with 9 months of 2011.

It is important to keep in mind that Q1 EBITDA can be hardly compared on year-on-year basis, since in Q1 2012 the margins were depressed by sales of the products made from "non-subsidy" milk purchased in 2011. As the result, the Group's Q1 2012 EBITDA margin was 10%, improving to 14.4% in the second quarter and reaching 15.3% in the third quarter. The overall EBITDA margin for 9 months 2012 was 13.2%.

Following its expansion strategy, on July 31 2012 Milkiland acquired Ostrowia cheese making plant in the Republic of Poland. After launch scheduled for February 2013, Ostrowia will target the Group's natural markets in Russia and Ukraine from Poland, thus addressing risks of Russian import bans. Also, Ostrowia will open access to the EU, the largest dairy market globally. For more information regarding this deal refer to *Acquisition of Mazowiecka Spółdzielnia Mleczarska "Ostrowia"*.

Also, in 2012 the Group has set into motion its backward integration plans and started construction of 2 dairy farms, the first one of 6,800 milking cows stalls to be launched in the beginning of 2013. The investments in the construction in 9 months of 2012 amounted to EUR 17.6 million. When operated at full capacity, such farm will provide 40-45 kt of milk annually, improving Milkiland's margins and adding to volume growth.

#### **Overview of Operations in 9 months 2012**

##### *Milk subsidy system back in force*

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

### *Downward correction of milk prices in Ukraine and Russia*

In 9 months 2012, first time in the Ukrainian history, raw milk production increased compared to previous period, as farms growing output overcame stagnating production trend of households. On the back of a 13.4% increase in milk production by farms, the total milk production volume in Ukraine grew by 2.6% y-o-y. It contributed to decrease in milk prices, in average by about 8.9% y-o-y.

In Russia the similar tendency was observed. In spite of a 14.1% increase of milk production by farms, the milk production volume in the country grew by 1.9%. The average prices of milk were 5.8% lower compared to 9 months 2011.

### *Restrictions of cheese exports to Russia*

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

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

In order to prevent cheese quality disputes in future, the parties agreed to delegate an authority to control, on a regular basis, quality of cheese exported to Russia to several Ukrainian laboratories passed the accreditation by Rospotrebnadzor.

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

As an outcome of the export ban, Milkiland's growth plans in cheese&butter segment in 9 months 2012 were significantly undermined, first of all in volume terms. After the lift of ban Milkiland has managed to recover significant part of its exports, though some implications of Russian ban will continue in 2012 and even in 2013. For additional information please refer to *Segment Revenue and Performance*.

### *Milk sourcing*

In pursue of the strategy to build up an integrated supply system, Milkiland put further efforts to develop in-house milk production. In 9 months 2012, milk supply from own farms grew by 1.7 times y-o-y to c. 11 thousand tons (c.3% of the Group's total milk intake in Ukraine).

Milkiland also continued supporting dairy cooperatives in the company's milk collection area. In 9 months of 2012, such cooperatives grew by 5% in members (to 18,000) and by 15% in cows (to 25,000), compared to the beginning of the year. As a result, the Group has secured 20% of milk collection coming from cooperatives in the current year.

### *Marketing and branding activities*

In line with its brand and product portfolio strategy, in 9 months 2012 Milkiland removed 36% of the least profitable SKU's in WMP segment and 8% in the cheese&butter segment. As the result, by the end of third quarter the Group has stopped sales of non-branded products.

Simultaneously, the Group successfully introduced several new SKUs and did some re-design in order to boost sales of thermostatic products. For additional information please refer to *Segment Revenue and Performance*.

#### *Acquisition of Mazowiecka Spółdzielnia Mleczarska "Ostrowia"*

On July 31, 2012, Milkiland EU sp. z o. o., a newly established Polish subsidiary of Milkiland N.V., acquired 100% shares of Polish-based Emir 10 sp. z o. o., a company that owned the business of bankrupted Mazowiecka Spółdzielnia Mleczarska "Ostrowia" (Ostrowia). The acquisition price comprised PLN 49.8 million (EUR 12.1 million).

Ostrowia is a modern cheese plant capable to produce a wide range of dairy products essential for Milkiland: hard cheese (up to 15 kt/ year), curd cheese and yoghurts (up to 11 kt/ year), processed cheese (up to 7 kt/ year). In 2003-07, Ostrowia underwent a major modernization and currently represents a state-of-the-art cheese making facility. Ostrowia brand is well known in Poland.

Milkiland acquired Ostrowia cheese making facility mainly for the purpose of addressing its natural CIS markets from Poland, thus decreasing the risks of Russian imports bans. Also, this acquisition allowed Milkiland to establish its footprint in EU, the largest dairy market globally.

According to the business plan, by the end of 2012 Milkiland will have to invest EUR 3.5 million in order to launch the Ostrowia facility and adjust it to requirements of CIS markets.

The acquisition was financed from cash generated by operating activities of the Milkiland Group.

After reaching its target volume output in 2013-14, Ostrowia will contribute around 15% to Milkiland's consolidated revenue and EBITDA.

Milkiland started the modernization of Ostrowia in November 2012 aiming to launch the plant in February 2013 and start exports to Ukraine and Russia in spring 2013, after respective permissions are in place.

### **Overview of Financial Results in 9 months 2012**

#### *Financial results*

- Revenues grew by c. 3% to EUR 206.6 million driven by better sales in the WMP segment both in Ukraine and Russia
- Gross profit increased by 13% to c. EUR 56.6 million due to lower effective raw milk prices because of restoration of the government subsidies to milk producers and a decrease in average raw milk prices both in Ukraine and Russia
- EBITDA decreased by c.5% to EUR 27.3 million, mainly driven by an unequal comparison basis between Q1 2011 and Q1 2012
- Net profit decreased by c.23% to EUR 10.7 million, mostly due to higher income tax expenses
- The increase in trade and other receivables has occurred due to some advances issued farmers and equipment suppliers, as well as sales promotion activities in order to capture additional market share in Ukraine and re-gain market share in Russia
- In 9 months 2012, Milkiland utilized USD 95 million out of USD 100 million of syndicated loan facility obtained in December 2011 and used these funds mainly to refinance its short term debt and for CAPEX purposes. Russian-based Ostankino converted significant share of its short-term indebtedness into three-year loans. Consequently, the structure of the Group's loan portfolio as of 30 September 2012 has changed favorably to c.53% share of long-term debts compared with c.30% as of January 1, 2012. The Group's overall debt has increased by c.5% to about EUR 100 million.

### **Segment revenue and performance**

*Cheese & butter segment* contributed approximately 51% to the Group's total revenue and 60% to the EBITDA (c.55% and 77% respectively in 9 months 2011). Segment revenue decreased by c.4% to EUR 105.5 million on a back of lower sales volumes due to Russian import ban.

Export sales volumes of cheese have been gradually restoring since the export ban was lifted by Rospotrebnadzor in April 2012. The Group's management plans to get back to its regular exports volumes in November 2012. Meanwhile, in 9 months 2012 Milkiland held the leading Ukrainian cheese exporter position with 27% share in volume and 32% share in value.

*Whole-milk dairy* is the second largest segment in terms of revenue and EBITDA providing for 40% and 32% respectively (37% and 15% in 9 months 2011).

The segment revenue grew by 12% to EUR 82.5 million, the growth coming from both Ukraine (22% y-o-y) and Russia (9% y-o-y). Such revenue advance was underpinned by dynamic development in several product categories, such as UHT milk (+30% y-o-y), thermostatic dairy (+24%) and drinking yogurts (+60%). The segment's EBITDA increased about twofold, from EUR 4.6 million to EUR 9.2 million on account of Ukrainian and Russian businesses.

In *Ingredients and other products segment*, revenue increased by c. 7% to EUR 18.5 million, while segment's EBITDA grew c. 2% to EUR 2.2 million mainly due to seasonal sales of agricultural produce, such as maize, while sales of dry milk products shrank due to low global prices.

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

Cost of sales was almost flat in 9 months of 2012 compared to the same period of 2011 and stood at EUR 150 million. A noticeable decrease in the cost of raw and other materials by 16% or almost EUR 20 was partially offset by increase in some other expenses such as depreciation, transportation, gas, and electricity costs. The major increase was in depreciation costs associated with the one-off re-valuation of the PPE made in the end of 2011.

As a result, the Group's gross profit was 9% higher in 9 months 2012 than in 9 months 2011 (EUR 56.6 million and EUR 51.8 million respectively). The gross margin improved to 27.4% from 25.7%.

### **Operating profit and EBITDA**

Selling and distribution expenses increased by 18% (to EUR 18.5 million) in 9 months of 2012, mainly due to increase in transportation costs as a result of higher fuel prices, and higher labor costs reflecting the Group's team building efforts. WMP market share expansion in Ukraine and Russia has triggered some growth in marketing expenses. The Group's international expansion program that triggered rise in labor costs and marketing expenses.

There were literally no changes in the total amount administrative expenses which stood at c. EUR 18.8 million, the same as in 9 months 2011. Decrease in salaries caused by streamlining of operations and lower bonuses, was off-set by increase in other expense items.

In the reporting period, the Group posted other expenses of c. EUR 3.5 million compared with income of EUR 1.2 million in 9 months of 2011, mainly due to a significant increase in other operating expenses such as change in provisions and write offs in VAT receivable, and one-off expense related to acquisition costs of Ostrowia.

Increased gross profit combined with rising operating costs led to a decline in operating profit to EUR 15.8 million. As a result, the Group's EBITDA declined by c. 4% to EUR 28.6 million. In 9 months 2012, the Group's EBITDA margin of 14% was lower than in 9 months 2011 when it stood at 15%.

**Profit before tax and net profit**

Lower operating profit and an increase in income tax expense contributed to a decrease in the profit before tax from EUR 14.8 million to c. EUR 12.8 million. Net profit declined to EUR 10.7 million.

## **REPRESENTATION**

of the Board of Directors

of Milkiland N.V.

on compliance of the condensed consolidated interim financial statements

The Board of Directors of Milkiland N.V. hereby represent that to the best of their knowledge the condensed consolidated interim financial statements of Milkiland N.V. for the period ended 30 September 2012 and the comparable information are prepared in accordance with the applicable accounting standards and that they give a true, fair and clear view of the assets, financial standing and financial results of Milkiland N.V., and that the interim statement for the nine months ended 30 September 2012 gives a true view of the developments, achievements and situation of the Company, including a description of the key risks and threats.

Board of Directors of Milkiland N.V.

Amsterdam, 9 November 2012

**A. Yurkevych**

**O. Yurkevych**

**O.Rozhko**

**F.J. Aherne**

**V. Rekov**

**W. S. van Walt Meijer**

**G. Heerink**



**Milkiland N.V.**

**Condensed Consolidated Interim Financial Statements**

For the nine months ended 30 September 2012

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**MILKILAND N.V.****Condensed consolidated interim statement of financial position****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

|   | Notes | 30 September<br>2012<br>(unaudited) | 31 December<br>2011<br>(audited) | 30 September<br>2011<br>(unaudited) |
|---|-------|-------------------------------------|----------------------------------|-------------------------------------|
| <b>ASSETS</b>                                       |       |                                     |                                  |                                     |
| <b>Current assets</b>                               |       |                                     |                                  |                                     |
| Cash and cash equivalents                           | 9     | 26,169                              | 53,410                           | 27,327                              |
| Trade and other receivables                         | 10    | 51,606                              | 28,994                           | 30,261                              |
| Inventories   | 11    | 33,712                              | 34,686                           | 36,548                              |
| Current biological assets                           | 15    | 6,140                               | 3,422                            | 5,204                               |
| Current income tax assets                           |       | 367                                 | 498                              | 129                                 |
| Other taxes receivable                              | 12    | 11,294                              | 22,607                           | 24,050                              |
|   |       | <b>129,288</b>                      | <b>143,617</b>                   | <b>123,519</b>                      |
| <b>Non-current assets</b>                           |       |                                     |                                  |                                     |
| Goodwill  | 13    | 8,033                               | 4,461                            | 2,213                               |
| Property, plant and equipment                       | 14    | 179,494                             | 155,616                          | 119,458                             |
| Non-current biological assets                       | 15    | 2,880                               | 2,583                            | 1,518                               |
| Other intangible assets                             |       | 1,675                               | 340                              | 747                                 |
| Deferred income tax assets                          |       | 21,087                              | 21,061                           | 30,184                              |
| Other non-current assets                            |       | -                                   | -                                | 222                                 |
|   |       | <b>213,169</b>                      | <b>184,061</b>                   | <b>154,342</b>                      |
| <b>TOTAL ASSETS</b>                                 |       | <b>342,457</b>                      | <b>327,678</b>                   | <b>277,861</b>                      |
| <b>LIABILITIES AND EQUITY</b>                       |       |                                     |                                  |                                     |
| <b>Current liabilities</b>                          |       |                                     |                                  |                                     |
| Trade and other payables                            | 16    | 18,193                              | 18,430                           | 19,720                              |
| Current income tax liabilities                      |       | 324                                 | 508                              | 463                                 |
| Other taxes payable                                 | 17    | 2,101                               | 1,861                            | 2,938                               |
| Short-term loans and borrowings                     | 18    | 46,353                              | 67,153                           | 44,601                              |
|   |       | <b>66,971</b>                       | <b>87,952</b>                    | <b>67,722</b>                       |
| <b>Non-Current liabilities</b>                      |       |                                     |                                  |                                     |
| Loans and borrowings                                | 18    | 53,258                              | 28,168                           | 28,164                              |
| Deferred income tax liability                       |       | 43,411                              | 43,874                           | 46,445                              |
| Other non-current liabilities                       |       | 739                                 | 1,870                            | 1,424                               |
|   |       | <b>97,408</b>                       | <b>73,912</b>                    | <b>76,033</b>                       |
| <b>Total liabilities</b>                            |       | <b>164,379</b>                      | <b>161,864</b>                   | <b>143,755</b>                      |
| <b>Equity attributable to owners of the Company</b> |       |                                     |                                  |                                     |
| Share capital                                       | 19    | 3,125                               | 3,125                            | 3,125                               |
| Share premium                                       |       | 48,687                              | 48,687                           | 48,687                              |
| Revaluation reserve                                 |       | 54,060                              | 58,320                           | 31,823                              |
| Currency translation reserve                        |       | (6,687)                             | (8,134)                          | (14,278)                            |
| Retained earnings                                   |       | 72,174                              | 57,861                           | 58,803                              |
|   |       | <b>171,359</b>                      | <b>159,859</b>                   | <b>128,160</b>                      |
| Non-controlling interests                           |       | 6,719                               | 5,955                            | 5,946                               |
| <b>Total equity</b>                                 |       | <b>178,078</b>                      | <b>165,814</b>                   | <b>134,106</b>                      |
| <b>TOTAL LIABILITIES AND EQUITY</b>                 |       | <b>342,457</b>                      | <b>327,678</b>                   | <b>277,861</b>                      |

**MILKILAND N.V.****Condensed consolidated interim statement of comprehensive income****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

|  | Notes | 2012<br>(unaudited) | 2011<br>(unaudited) |
|--|-------|---------------------|---------------------|
| Revenue  | 20    | 206,594             | 201,265             |
| Change in fair value of biological assets                    |       | 60                  | 1,517               |
| Cost of sales  | 21    | (150,049)           | (151,012)           |
| <b>Gross profit</b>  |       | <b>56,605</b>       | <b>51,770</b>       |
| Selling and distribution expenses                            | 22    | (18,522)            | (15,711)            |
| General and administrative expenses                          | 23    | (18,767)            | (18,621)            |
| Other (expenses)/income, net                                 | 24    | (3,462)             | 1,233               |
| <b>Operating profit</b>                                      |       | <b>15,854</b>       | <b>18,671</b>       |
| Finance income   |       | 2,326               | 1,500               |
| Finance expenses   |       | (6,318)             | (5,920)             |
| Foreign exchange income, net                                 |       | 954                 | 507                 |
| <b>Profit before income tax</b>                              |       | <b>12,816</b>       | <b>14,758</b>       |
| Income tax expense   | 25    | (2,087)             | (879)               |
| <b>Profit for the period</b>                                 |       | <b>10,729</b>       | <b>13,879</b>       |
| <b>Other comprehensive income</b>                            |       |                     |                     |
| Currency translation differences                             |       | 1,535               | (2,433)             |
| <b>Total comprehensive income for the period</b>             |       | <b>12,264</b>       | <b>11,446</b>       |
| <b>Profit attributable to:</b>                               |       |                     |                     |
| Owners of the Company  |       | 10,048              | 13,609              |
| Non-controlling interests                                    |       | 681                 | 270                 |
|  |       | <b>10,729</b>       | <b>13,879</b>       |
| <b>Total comprehensive income attributable to:</b>           |       |                     |                     |
| Owners of the Company  |       | 11,500              | 11,401              |
| Non-controlling interests                                    |       | 764                 | 45                  |
| <b>Total comprehensive income for the period</b>             |       | <b>12,264</b>       | <b>11,446</b>       |
| <b>Earnings per share, basic and diluted (in euro cents)</b> | 29    | <b>32.15</b>        | <b>43.55</b>        |

**MILKILAND N.V.****Condensed consolidated interim statement of cash flows****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

|  | 2012 (unaudited) | 2011 (unaudited) |
|--|------------------|------------------|
| <b><i>Cash flows from operating activities:</i></b>                      |                  |                  |
| Profit before income tax   | 12,816           | 14,758           |
| Adjustments for:   |                  |                  |
| Depreciation and amortization  | 9,407            | 6,725            |
| Finance expenses   | 6,318            | 5,921            |
| Change in provision and write-off of VAT receivable                      | 4,713            | (1)              |
| Acquisition related cost   | 1,062            | -                |
| Change in provision and write-off of trade and other accounts receivable | 516              | (147)            |
| Loss/(gain) from disposal of inventories                                 | 476              | 624              |
| Change in provision and write-off of inventories                         | 473              | -                |
| Loss from write-off, revaluation and disposal of non-current assets      | 391              | 593              |
| Finance income   | (2,326)          | (1,500)          |
| Foreign exchange gain  | (954)            | (507)            |
| Change in fair value of biological assets                                | (60)             | (1,517)          |
| Write-off of accounts payable  | (41)             | (347)            |
| <b>Operating cash flows before working capital changes</b>               | <b>32,791</b>    | <b>24,602</b>    |
| <b><i>Changes in assets and liabilities:</i></b>                         |                  |                  |
| Decrease/(increase) in other taxes receivable, net                       | 6,943            | (286)            |
| Decrease/(Increase) in inventories                                       | 1,052            | (11,877)         |
| Increase in accounts receivable  | (24,824)         | (9,425)          |
| Decrease in accounts payable   | 1,903            | 8,940            |
| Increase in current biological assets                                    | (2,411)          | (2,055)          |
| <b>Cash generated from operations:</b>                                   | <b>15,454</b>    | <b>9,899</b>     |
| Interest paid  | (7,157)          | (5,932)          |
| Interest received  | 2,326            | 1,495            |
| Income taxes paid  | (2,939)          | (1,064)          |
| <b>Net cash from operating activities</b>                                | <b>7,684</b>     | <b>4,398</b>     |
| <b><i>Cash flows from investing activities:</i></b>                      |                  |                  |
| Proceeds from sale of property, plant and equipment                      | 117              | 882              |
| Acquisition of property, plant and equipment and biological assets       | (22,499)         | (5,941)          |
| Acquisition of subsidiaries, net of cash acquired                        | (14,253)         | (2,460)          |
| Acquisition related cost paid  | (1,062)          | -                |
| <b>Net cash generated from investing activities</b>                      | <b>(37,697)</b>  | <b>(7,519)</b>   |
| <b><i>Cash flows from financing activities:</i></b>                      |                  |                  |
| IPO costs paid   | -                | (782)            |
| Proceeds from borrowings   | 83,046           | 28,899           |
| Repayment of borrowings  | (76,705)         | (32,756)         |
| Payment of transaction cost related to borrowings                        | (2,869)          | -                |
| Repayment of other non-current liabilities                               | (1,058)          | -                |
| <b>Net cash used in financing activities</b>                             | <b>2,414</b>     | <b>(4,639)</b>   |
| <b>Net decrease in cash and cash equivalents</b>                         | <b>(27,599)</b>  | <b>(7,760)</b>   |
| Cash and cash equivalents at the beginning of the period                 | 53,410           | 37,757           |
| Exchange gains/(losses) on cash and cash equivalents                     | 358              | (2,670)          |
| <b>Cash and cash equivalents at the end of the period</b>                | <b>26,169</b>    | <b>27,327</b>    |

**MILKILAND N.V.****Condensed consolidated interim statement of changes in equity****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

|   | Attributable to equity holders of the company |               |                                      |                     |                   | Non-controlling interests  | Total equity   |
|---|---|---------------|--------------------------------------|---------------------|-------------------|----------------------------|----------------|
|   | Share capital                                 | Share premium | Foreign currency translation reserve | Revaluation reserve | Retained earnings | Total stockholders' equity |                |
| <b>Balance at 1 January 2011</b>                          | <b>3,125</b>                                  | <b>48,687</b> | <b>(12,070)</b>                      | <b>34,664</b>       | <b>42,441</b>     | <b>116,847</b>             | <b>122,978</b> |
| <b>Total comprehensive income for the year</b>            | -   | -             | <b>(2,208)</b>                       | -                   | <b>13,609</b>     | <b>11,401</b>              | <b>11,446</b>  |
| Acquisition of subsidiaries and non-controlling interests | -   | -             |                                      | 13                  | (101)             | (88)                       | <b>(318)</b>   |
| Realised revaluation reserve, net of income tax           | -   | -             | -                                    | (2,854)             | 2,854             | -                          | -              |
| <b>Balance at 30 September 2011</b>                       | <b>3,125</b>                                  | <b>48,687</b> | <b>(14,278)</b>                      | <b>31,823</b>       | <b>58,803</b>     | <b>128,160</b>             | <b>134,106</b> |
|   |   |               |                                      |                     |                   |                            |                |
| <b>Balance at 1 January 2012</b>                          | <b>3,125</b>                                  | <b>48,687</b> | <b>(8,134)</b>                       | <b>58,320</b>       | <b>57,861</b>     | <b>159,859</b>             | <b>165,814</b> |
| <b>Total comprehensive income for the period</b>          | -   | -             | 1,447                                | 5                   | 10,048            | <b>11,500</b>              | <b>12,264</b>  |
| Realised revaluation reserve, net of income tax           |   |               |                                      | (4,265)             | 4,265             | -                          | -              |
| <b>Balance at 30 September 2012 (unaudited)</b>           | <b>3,125</b>                                  | <b>48,687</b> | <b>(6,687)</b>                       | <b>54,060</b>       | <b>72,174</b>     | <b>171,359</b>             | <b>178,078</b> |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

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**1 The Group and its operations**

These condensed consolidated interim financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the nine months ended 30 September 2012 for Milkiland N.V. (the “Company”) and its subsidiaries (together referred to as the “Group” or “Milkiland”).

The financial statements were approved by the Board of Directors on 9 November 2012.

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

As at 30 September 2012, the Company is owned by 1, Inc. Cooperatief (holding 73% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine, Russia and Poland, able to process up to 1,300 thousand tonnes of milk per year. The plants purchase milk from local farmers and produce cheese, butter, whole-milk products, powdered milk, casein and other products.

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**1 The Group and its operations (continued)**

Subsidiaries of the Company are presented below:

| Name                         | Country of incorporation | Effective share of ownership |                  |
|------------------------------|--------------------------|------------------------------|------------------|
|                              |                          | 30 September 2012            | 31 December 2011 |
| Milkiland Corporation        | Panama                   | 100.0%                       | 100.0%           |
| JSC Ostankino Dairy Combine  | Russia                   | 95,3%                        | 95,3%            |
| DE Milkiland Ukraine         | Ukraine                  | 100.0%                       | 100.0%           |
| DE Aromat                    | Ukraine                  | 100.0%                       | 100.0%           |
| PE Prometey                  | Ukraine                  | 100.0%                       | 100.0%           |
| PE Ros                       | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Malka-trans              | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Mirgorodsky Cheese Plant | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Kyiv Milk Plant #1       | Ukraine                  | 100.0%                       | 100.0%           |
| JSC Chernigiv Milk Plant     | Ukraine                  | 76,0%                        | 76,0%            |
| PrJSC Gorodnia Milk Plant    | Ukraine                  | 72,3%                        | 72,3%            |
| LLC Agrosvit                 | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Molochni vyroby          | Ukraine                  | 100.0%                       | 100.0%           |
| DE Borznyanskiy Milk Plant   | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Moloko-Kraina            | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Torgovyi dim Milkiland   | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Ukrainian Milk House     | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Milkiland N.V Krainy     | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Milkiland N.V            | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Moloko Polissia          | Ukraine                  | 100.0%                       | 100.0%           |
| PrJSC Transportnyk           | Ukraine                  | 70,3%                        | 70,3%            |
| LLC Milkiland Agro           | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Stugna-Moloko            | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Trubizh-Moloko           | Ukraine                  | 100.0%                       | 100.0%           |
| PJSC Iskra                   | Ukraine                  | 68,1%                        | 68,1%            |
| DE Agrolight                 | Ukraine                  | 100.0%                       | 100.0%           |
| DE Krasnosilsky Milk         | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Bachmachregionpostach    | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Avtek Rent Service       | Ukraine                  | 100.0%                       | 100.0%           |
| AF Konotopska                | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Batkivschyna             | Ukraine                  | 100.0%                       | 100.0%           |
| PE Agro PersheTravnya        | Ukraine                  | 100.0%                       | 100.0%           |
| ALLC Nadiya                  | Ukraine                  | 100.0%                       | 100.0%           |
| LLC Zemledar 2020            | Ukraine                  | 100.0%                       | 100.0%           |
| PAE Dovzhenka                | Ukraine                  | 100.0%                       | -                |
| LLC Feskivske                | Ukraine                  | 100.0%                       | -                |
| Milkiland EU sp. z.o.o.      | Poland                   | 100.0%                       | -                |
| Ostrowia 10 sp. z.o.o        | Poland                   | 100.0%                       | -                |
| MLK Finance Limited          | Cyprus                   | 100.0%                       | -                |

During the nine months ended 30 September 2012, the Group finalized acquisition of agricultural companies PAE “Dovzhenka”, LLC “Feskivske” in Ukraine and cheese production company “Ostrowia” sp. z.o.o (former Emir 10 sp. z.o.o) in Poland (note 6).

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During the nine months ended 30 September 2012, the Group finalized registration of new subsidiaries Milkiland EU sp. z.o.o. in Poland and MLK Finance Limited in Cyprus.

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

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

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

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

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

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

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

The macroeconomic instability could be triggered by some external factors, including drop in oil prices in the world market, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors.

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

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### 3 Summary of significant accounting policies

**Basis of preparation and statement of compliance.** This condensed consolidated interim financial information for the nine months ended 30 September 2012 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

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

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

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

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

Management believes that the raw milk prices in Russia are affected by seasonality to a lesser extent than in Ukraine due to the differences in structure of raw milk supplies. The Group sources approximately 50% of its raw milk requirements in Ukraine from individual household producers, while in Russia the Group sources its raw milk primarily from the farms, which are less susceptible to seasonal variations. However, due to Russia being a net importer of dairy products, prices for such products in Russia are more dependent on the world prices for dry milk, which are also subject to cyclical and seasonal variations.

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



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

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

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

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

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

|   | <b>US dollar</b> | <b>UAH</b> | <b>RUR</b> |
|---|------------------|------------|------------|
| As at 30 September 2012                         | 1.2930           | 10.3349    | 39.9786    |
| Average for nine months ended 30 September 2012 | 1.2819           | 10.2426    | 39.8376    |
| As at 31 December 2011                          | 1.2939           | 10.3380    | 41.6714    |
| As at 30 September 2011                         | 1.3503           | 10.7655    | 40.4345    |
| Average for nine months ended 30 September 2011 | 1.4065           | 11.1997    | 43.3979    |

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## 4 Critical accounting estimates and judgments

The preparation of the financial statements requires the management to make various estimations and assumptions that affect reporting values of the assets and liabilities as well as disclosure of information on contingent assets and liabilities at the balance sheet date. Actual results might differ from the current estimations. The estimations are periodically reviewed. Should the adjustments be needed they are reported in the financial results of the period when they became aware.

Below are the main assumptions as to future events and other sources of uncertainties of estimates at the reporting dates that are of a great risk of the necessity to make significant adjustments to the carrying amount of assets and liabilities during the next reporting year:

***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.

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## 5 Adoption of new or revised standards and interpretations

*The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year ended 31 December 2012, but are not relevant to the Group's operations:*

- **Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Severe hyper-inflation and removal of fixed dates for first-time adopters** (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). In respect of the removal of fixed dates, the amendments will provide relief for first-time adopters of International Financial Reporting Standards (IFRSs) from having to reconstruct transactions that occurred before their date of transition to IFRSs. The amendments in respect of severe hyperinflation will provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.
- **Amendments to IFRS 7, Financial instruments: Disclosures - Transfers of financial assets** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets.
- **Amendments to IAS 12, Income taxes - Deferred tax** (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property.

*The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and which the Group has not early adopted:*

- **IFRS 9, Financial instruments** (issued in December 2009). The standard replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. For financial liabilities, the standard retains most of the IAS 39 requirements. Adoption of IFRS 9 is mandatory from 1 January 2015; earlier adoption is permitted. IFRS 9 is not expected to have any significant impact on the Group's financial statements. IFRS 9 has not been adopted by the European Union at the date of this report issue and it is unlikely that the standard will be applicable on the European Union territory from 1 January 2015.
- **IFRS 10, Consolidated financial statements** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities. Earlier application is permitted. The Group is currently assessing the impact of the new standard on its financial statements. The standard has not been adopted by the European Union at the date of this report issue.

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**5 Adoption of new or revised standards and interpretations (continued)**

**IFRS 13, Fair value measurement** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). The standard applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. It explains how to measure fair value for financial reporting and does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. IFRS 13 is not expected to have any significant impact on the Group's financial statements. The standard has not been adopted by the European Union at the date of this report issue.

**Amendments to IFRS 7, Financial instruments: Disclosures - Offsetting financial assets and financial liabilities** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendments require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments are not expected to have any significant impact on the Group's financial statements. The amendments have not been adopted by the European Union at the date of this report issue.

**Amendments to IFRS 7, Financial instruments: Disclosures – Transfers of financial assets** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. The amendments are not expected to have any significant impact on the Group's financial statements. The amendments have not been adopted by the European Union at the date of this report issue.

- **IAS 19, Employee benefits** (revised in June 2011 and effective for periods beginning on or after 1 January 2013). The standard prescribes the accounting and disclosure by employers for employee benefits. The Standard does not deal with reporting by employee benefit plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans). The amendments are not expected to have any significant impact on the Group's financial statements as the Group does not participate in any defined retirement benefit plan for its employees.
- **Amendments to IAS 1, Presentation of financial statements - Presentation of items of other comprehensive income** (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). The amendments improved the consistency and clarity of the presentation of items of other comprehensive income (OCI). The amendments also highlighted the importance of presenting profit or loss and OCI together and with equal prominence. In 2007 IAS 1 was amended to require profit or loss and OCI to be presented together. The amendments issued in June 2011 retained that requirement, but focused on improving how items of OCI are presented. The main change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments). The amendments are not expected to have any significant impact on the Group's financial statements.

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**5 Adoption of new or revised standards and interpretations (continued)**

- **Amendments to IAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendments clarify requirements for offsetting financial assets and financial liabilities. The amendments are not expected to have any significant impact on the Group's financial statements.
- **Annual improvements 2011** (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). The improvements set out amendments to IFRSs and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments result from proposals that were contained in the exposure draft of proposed amendments to IFRSs, improvements to IFRSs, published in June 2011. The Annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are not expected to have any significant impact on the Group's financial statements. The Improvements have not been adopted by the European Union at the date of this report issue.

*The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and are not relevant to the Group's operations:*

- **IFRS 11, Joint arrangements** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- **IFRS 12, Disclosure of interest in other entities** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Government loans** (issued in March 2012 and effective for annual periods beginning on or after 1 January 2013).
- **IAS 27, Separate financial statements** (revised in 2011 and effective for annual periods beginning on or after 1 January 2013).
- **IAS 28, Associates and joint ventures** (revised in 2011 and effective for annual periods beginning on or after 1 January 2013).
- **IFRIC 20, Stripping costs in the production phase of a surface mine** (issued in October 2010 and effective for annual periods beginning on or after 1 January 2013).

## 6 Business combinations

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

Due to the fact that the PAE Dovzhenka and LLC Feskivske have been acquired in the 2012, the fair value of the net assets obtained has not been determined due to the short time period before the period-end close. As a result provisional goodwill at the amount of EUR 156 thousand and EUR 631 thousand respectively have been recognised.

In July 2012, the Group acquired 100% of the share capital of cheese producer Ostrowia (former Emir 10), for the total consideration EUR 12.1 million. As a result of the acquisition, the Group expects to enter into EU milk markets and reduce its operating risks such as raw milk price volatility in Ukraine and cheese supply limitations to Russia. As a result provisional goodwill at the amount of EUR 2,779 thousand has been estimated.

Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator.

Identifiable assets acquired and liabilities assumed:

|                                      | PAE Dovzhenka | LLC Feskivske | Ostrowia sp. z.o.o |
|--------------------------------------|---------------|---------------|--------------------|
| Cash and cash equivalents            | 1             | 38            | 34                 |
| Trade and other receivables          | 1             | 327           | 70                 |
| Inventories                          | 88            | 364           | 12                 |
| Property, plant and equipment        | 130           | 604           | 8,803              |
| Other intangible assets              | -             | -             | 1,317              |
| Biological assets                    | 50            | 495           | -                  |
| Trade and other payables             | (20)          | (695)         | (891)              |
| <b>Total net identifiable assets</b> | <b>250</b>    | <b>1,133</b>  | <b>9,345</b>       |
| Cash paid                            | 406           | 1,764         | 12,124             |
| Fair value of identifiable assets    | (250)         | (1,133)       | (9,345)            |
| <b>Goodwill</b>                      | <b>156</b>    | <b>631</b>    | <b>2,779</b>       |

Acquisition related costs of EUR 1,062 thousand have been charged to other (expenses)/income, net in the condensed consolidated interim statement of comprehensive income for the nine months ended 30 September 2012.

For ALLC Nadiya and PE Agro Pershe Travnya that were acquired in the end of 2011, the fair value of the net assets obtained was not determined. Consequently, the fair value of net assets as at the day of acquisition will be determined in 2012 by the independent valuator and included to the consolidated financial statements as at and for the year ended 31 December 2012. As a result provisional goodwill at the amount of EUR 2,346 thousand was recognized in the consolidated financial statements as at and for the year ended 31 December 2011. Provisional goodwill relates predominantly to the leasehold land, which is not reflected in the financial statements of acquired entities.

## 7 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* – comprising the production and distribution of cheese and butter;
- *Whole-milk* – comprising the production and distribution of cheese and butter;
- *Ingredients* – comprising the production and distribution of dry milk, agricultural products, ice-cream and other products. Although the segment contributes a relatively small amount of revenue to the Group, it is also monitored by the strategic chief operating decision-maker as well.

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

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

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

The segment information by country for the nine months ended 30 September is as follows:

|  | 2012          |                |                | 2011          |                |                |
|--|---------------|----------------|----------------|---------------|----------------|----------------|
|  | Russia        | Ukraine        | Total          | Russia        | Ukraine        | Total          |
| Total segment revenue                  | 83,765        | 149,243        | 233,008        | 78,435        | 149,748        | 228,183        |
| Inter-segment revenue                  | -             | (26,506)       | (26,506)       | -             | (26,918)       | (26,918)       |
| <b>Revenue from external customers</b> | <b>83,765</b> | <b>122,737</b> | <b>206,502</b> | <b>78,435</b> | <b>122,830</b> | <b>201,265</b> |
| <b>EBITDA</b>                          | <b>5,415</b>  | <b>23,228</b>  | <b>28,643</b>  | <b>3,580</b>  | <b>26,116</b>  | <b>29,696</b>  |
| Depreciation and amortisation          | 2,572         | 6,723          | 9,295          | 2,422         | 4,304          | 6,726          |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**7 Segment information (continued)**

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

The segment information by product for the nine months ended 30 September is as follows:

|  | <b>2012</b>                |                            |                    |                | <b>2011</b>                |                            |                    |                |
|--|----------------------------|----------------------------|--------------------|----------------|----------------------------|----------------------------|--------------------|----------------|
|  | <b>Cheese &amp; butter</b> | <b>Whole-milk products</b> | <b>Ingredients</b> | <b>Total</b>   | <b>Cheese &amp; butter</b> | <b>Whole-milk products</b> | <b>Ingredients</b> | <b>Total</b>   |
| Total segment revenue                  | 121,201                    | 82,490                     | 29,317             | 233,008        | 130,836                    | 73,820                     | 23,527             | 228,183        |
| Inter-segment revenue                  | (15,721)                   | -                          | (10,785)           | (26,506)       | (20,698)                   | -                          | (6,220)            | (26,918)       |
| <b>Revenue from external customers</b> | <b>105,480</b>             | <b>82,490</b>              | <b>18,532</b>      | <b>206,502</b> | <b>110,138</b>             | <b>73,820</b>              | <b>17,307</b>      | <b>201,265</b> |
| <b>EBITDA</b>                          | <b>17,257</b>              | <b>9,219</b>               | <b>2,167</b>       | <b>28,643</b>  | <b>22,999</b>              | <b>4,575</b>               | <b>2,122</b>       | <b>29,696</b>  |
| <b>EBITDA margin</b>                   | <b>16%</b>                 | <b>11%</b>                 | <b>12%</b>         | <b>14%</b>     | <b>21%</b>                 | <b>6%</b>                  | <b>12%</b>         | <b>15%</b>     |
| Depreciation and amortisation          | 4,540                      | 3,831                      | 924                | 9,295          | 2,589                      | 3,505                      | 631                | 6,725          |

A reconciliation of EBITDA to profit before tax for the nine months ended 30 September is as follows:

|   | <b>2012</b>   | <b>2011</b>   |
|---|---------------|---------------|
| <b>EBITDA of main reportable segments</b>               | <b>28,643</b> | <b>29,696</b> |
| EBITDA of other segments                                | (1,336)       | (843)         |
| <b>Total EBITDA</b>                                     | <b>27,307</b> | <b>28,853</b> |
| Depreciation and amortisation                           | (9,407)       | (6,725)       |
| Acquisition related cost (note 6)                       | (1,062)       | -             |
| Other non-recurring consulting and legal fees           | (593)         | (2,864)       |
| Loss from disposal and impairment of non-current assets | (391)         | (593)         |
| Finance income  | 2,326         | 1,500         |
| Finance expenses  | (6,318)       | (5,920)       |
| Foreign exchange gain/(loss)                            | 954           | 507           |
| <b>Profit before tax</b>                                | <b>12,816</b> | <b>14,758</b> |



## 8 Balances and transactions with related parties

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

Group's transactions with its related parties for the nine months ended 30 September were as follows:

| <i>Entities under common control:</i> | <b>2012</b> | <b>2011</b> |
|---------------------------------------|-------------|-------------|
| Revenue                               | 2,183       | 1,743       |

The outstanding balances due from related parties were as follows:

| <i>Entities under common control:</i> | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|---------------------------------------|------------------------------|-----------------------------|------------------------------|
| Trade accounts receivable             | 2,868                        | 855                         | 270                          |
| Other accounts receivable             | -                            | 31                          | 269                          |

During nine months ended 30 September 2012, the Group contracted related parties to construct new farms. As at 30 September 2012, investments made in respect of farms construction EUR 3,468 thousand (31 December 2011: nil) were classified as property, plant and equipment (Note 14).

## Key management compensation

Key management includes members of the Board of directors. The short-term employee benefits for the nine months ended 30 September 2012 paid or payable to key management for employee services is EUR 743 thousand (2011: EUR 1,011 thousand).

## 9 Cash and cash equivalents

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

|  | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|--|------------------------------|-----------------------------|------------------------------|
| Short-term deposits                    | 12,290                       | 27,740                      | 25,031                       |
| Cash in bank and cash on hand          | 13,879                       | 25,670                      | 2,296                        |
| <b>Total cash and cash equivalents</b> | <b>26,169</b>                | <b>53,410</b>               | <b>27,327</b>                |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**10 Trade and other receivables**

|  | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|--|------------------------------|-----------------------------|------------------------------|
| Trade accounts receivable  | 33,782                       | 24,705                      | 23,170                       |
| Other financial assets   | 3,095                        | 284                         | -                            |
| Allowance for doubtful debts                                     | (2,389)                      | (1,999)                     | (1,314)                      |
| <b>Total financial assets within trade and other receivables</b> | <b>34,488</b>                | <b>22,990</b>               | <b>21,856</b>                |
| Advances issued  | 15,943                       | 3,924                       | 4,256                        |
| Other receivables  | 3,093                        | 5,906                       | 7,369                        |
| Allowance for doubtful debts                                     | (1,918)                      | (3,826)                     | (3,220)                      |
| <b>Total trade and other receivables</b>                         | <b>51,606</b>                | <b>28,994</b>               | <b>30,261</b>                |

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

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

**11 Inventories**

|                                     | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|-------------------------------------|------------------------------|-----------------------------|------------------------------|
| Raw and other materials             | 9,818                        | 11,707                      | 12,514                       |
| Finished goods and work in progress | 21,709                       | 21,091                      | 24,034                       |
| Agriculture produce                 | 2,185                        | 1,888                       | -                            |
| <b>Total inventories</b>            | <b>33,712</b>                | <b>34,686</b>               | <b>36,548</b>                |

**12 Other taxes receivable**

|                                     | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|-------------------------------------|------------------------------|-----------------------------|------------------------------|
| VAT receivable                      | 11,143                       | 22,407                      | 23,866                       |
| Payroll related taxes               | 76                           | 53                          | 65                           |
| Other prepaid taxes                 | 75                           | 147                         | 119                          |
| <b>Total other taxes receivable</b> | <b>11,294</b>                | <b>22,607</b>               | <b>24,050</b>                |

VAT receivable as at 30 September 2012 is shown net of provision at the amount of EUR 1,853 thousand (31 December 2011: EUR 7,639 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 25% (2011: 28%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

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**13 Goodwill**

|                                | <b>2012</b>  | <b>2011</b>  |
|--------------------------------|--------------|--------------|
| Balance at 1 January           | 4,461        | 2,117        |
| Acquisitions                   | 3,566        | 99           |
| Foreign currency translation   | 6            | (3)          |
| <b>Balance at 30 September</b> | <b>8,033</b> | <b>2,213</b> |

The goodwill of EUR 2,114 thousand (2011: EUR 2,114 thousand) is a result of acquisition of Ostankino Dairy Combine in January 2008. The provisional goodwill of EUR 2,420 thousand (2011: EUR 2,347 thousand) is a result of acquisition of PE Agro Pershe Travnya and ALLC Nadiya in December 2011 and have not been revalued during the nine months ended 30 September 2012. Provisional goodwill relates predominantly to the leasehold land, which is not reflected in the financial statements of acquired entities. Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator. Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to a Russian and Ukrainian companies, it is translated each year as part of the translation of the foreign operation.

The provisional goodwill of EUR 3,566 thousand is a result of acquisition of new subsidiaries in 2012 (note 6).

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

During nine months ended 30 September 2012 the Group acquired property, plant and equipment and intangible assets with a cost of EUR 22,499 thousand (2011: EUR 5,941 thousand), which comprised mainly investments to construction of 2 dairy farms.

## 15 Biological assets

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

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

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

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

As at 30 September 2012 and 31 December 2011 biological assets comprise the following groups:

|   | 30 September 2012 |              | 31 December 2011 |              | 30 September 2011 |              |
|---|-------------------|--------------|------------------|--------------|-------------------|--------------|
|   | Units             | Amount       | Units            | Amount       | Units             | Amount       |
| <b>Current biological assets of animal breeding</b> |                   |              |                  |              |                   |              |
| Cattle  | 4,818             | 2,177        | 3,443            | 1,840        | 4,054             | 1,524        |
| Other livestock                                     | -                 | 434          | -                | 420          | -                 | 90           |
| <b>Total biological assets of animal breeding</b>   | <b>4,818</b>      | <b>2,611</b> | <b>3,443</b>     | <b>2,260</b> | <b>-</b>          | <b>1,614</b> |
| <b>Current biological assets of plant growing</b>   |                   |              |                  |              |                   |              |
|   | Hectares          | Amount       | Hectares         | Amount       | Hectares          | Amount       |
| Maize   | 3,030             | 2,060        | -                | -            | 6,230             | 2,244        |
| Wheat   | 3,096             | 501          | 3,406            | 1,015        | 2,877             | 570          |
| Barley  | 221               | 35           | 802              | 147          | 781               | 205          |
| Other   | 13,799            | 933          | -                | -            | 4,565             | 571          |
| <b>Total biological assets of plant growing</b>     | <b>20,146</b>     | <b>3,529</b> | <b>4,208</b>     | <b>1,162</b> | <b>14,453</b>     | <b>3,590</b> |
| <b>Total current biological assets</b>              | <b>-</b>          | <b>6,140</b> | <b>-</b>         | <b>3,422</b> | <b>-</b>          | <b>5,204</b> |
| <b>Non-current biological assets</b>                |                   |              |                  |              |                   |              |
|   | Units             | Amount       | Units            | Amount       | Units             | Amount       |
| Cattle  | 3,530             | 2,880        | 2,827            | 2,541        | 2,713             | 1,518        |
| Other livestock                                     | -                 | -            | -                | 42           | -                 | -            |
| <b>Total non-current biological assets</b>          | <b>3,530</b>      | <b>2,880</b> | <b>2,827</b>     | <b>2,583</b> | <b>2,713</b>      | <b>1,518</b> |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**16 Trade and other payables**

|  | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|--|------------------------------|-----------------------------|------------------------------|
| Trade payables   | 10,593                       | 10,952                      | 12,351                       |
| Wages and salaries payable   | 1,882                        | 2,009                       | 1,700                        |
| Accounts payable for fixed assets                                  | 517                          | 49                          | 95                           |
| Accrual for audit fees and consulting services                     | -                            | 91                          | 13                           |
| Accruals for bonuses   | 186                          | 613                         | 711                          |
| Interest payable   | 77                           | 268                         | 344                          |
| <b>Total financial liabilities within trade and other payables</b> | <b>13,255</b>                | <b>13,982</b>               | <b>15,214</b>                |
| Advances received  | 1,058                        | 2,215                       | 1,623                        |
| Other accounts payable   | 2,420                        | 798                         | 1,503                        |
| Accruals for employees' unused vacations                           | 1,460                        | 1,435                       | 1,380                        |
| <b>Total trade and other payables</b>                              | <b>18,193</b>                | <b>18,430</b>               | <b>19,720</b>                |

Financial liabilities are normally settled within 60-days period.

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

**17 Other taxes payable**

|                                  | <b>30 September<br/>2012</b> | <b>31 December<br/>2011</b> | <b>30 September<br/>2011</b> |
|----------------------------------|------------------------------|-----------------------------|------------------------------|
| VAT payable                      | 1,109                        | 759                         | 1,823                        |
| Payroll related taxes            | 790                          | 921                         | 718                          |
| Other taxes payable              | 202                          | 181                         | 397                          |
| <b>Total other taxes payable</b> | <b>2,101</b>                 | <b>1,861</b>                | <b>2,938</b>                 |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**18 Loans and borrowings**

|   | 30 September<br>2012 | 31 December<br>2011 | 30 September<br>2011 |
|---|----------------------|---------------------|----------------------|
| <b>Current</b>                                |                      |                     |                      |
| Interest bearing loans due to banks           | 26,889               | 66,290              | 38,279               |
|   | <b>26,889</b>        | <b>66,290</b>       | <b>38,279</b>        |
| <b>Short-term portion of long-term debt</b>   |                      |                     |                      |
| Interest bearing loans due to banks           | 19,213               | 475                 | 6,062                |
| Finance leases                                | 251                  | 388                 | 260                  |
|   | <b>19,464</b>        | <b>863</b>          | <b>6,322</b>         |
| <b>Total current loans and borrowings</b>     | <b>46,353</b>        | <b>67,153</b>       | <b>44,601</b>        |
| <b>Non-current</b>                            |                      |                     |                      |
| Interest bearing loans due to banks           | 52,961               | 27,730              | 27,644               |
| Finance leases                                | 297                  | 438                 | 520                  |
|   | <b>53,258</b>        | <b>28,168</b>       | <b>28,164</b>        |
| <b>Total non-current loans and borrowings</b> | <b>53,258</b>        | <b>28,168</b>       | <b>28,164</b>        |
| <b>Total loans and borrowings</b>             | <b>99,611</b>        | <b>95,321</b>       | <b>72,765</b>        |

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

|   | 2012          | 2011          |
|---|---------------|---------------|
| Balance at 1 January  | 95,321        | 79,836        |
| Obtained new loans and borrowings, net of transaction costs | 80,179        | 28,899        |
| Repaid loans and borrowings                                 | (76,705)      | (32,756)      |
| Foreign exchange (loss)/gain                                | 816           | (3,214)       |
| <b>Balance at 30 September</b>                              | <b>99,611</b> | <b>72,765</b> |

Principal terms and the debt repayment schedule of the Group's loans and borrowings as at 30 September 2012 and 31 December 2011 were as follows:

|                                   | 30 September 2012 |        |               | 31 December 2011 |       |        |               |
|-----------------------------------|-------------------|--------|---------------|------------------|-------|--------|---------------|
|                                   | USD               | RUR    | Total         | USD              | UAH   | RUR    | Total         |
| <b>12 months or less</b>          |                   |        |               |                  |       |        |               |
| Outstanding balance, thousand EUR | 19,464            | 26,889 | <b>46,353</b> | 35,690           | 4,380 | 27,083 | <b>67,153</b> |
| Average interest rate, %          | 9.47              | 10.19  | <b>9.89</b>   | 11.28            | 18.33 | 8.80   | <b>10.74</b>  |
| <b>1-5 years</b>                  |                   |        |               |                  |       |        |               |
| Outstanding balance, thousand EUR | 53,258            | -      | <b>53,258</b> | 24,313           | 3,855 | -      | <b>28,168</b> |
| Average interest rate, %          | 9.47              | -      | <b>9.47</b>   | 12.00            | 19.67 | -      | <b>13.05</b>  |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**19 Share capital**

Share capital as at 30 September is as follows:

|                                    | <b>2012</b>                 |                | <b>2011</b>                 |                |
|------------------------------------|-----------------------------|----------------|-----------------------------|----------------|
|                                    | <b>Number of<br/>shares</b> | <b>EUR 000</b> | <b>Number of<br/>shares</b> | <b>EUR 000</b> |
| <b>Authorised</b>                  |                             |                |                             |                |
| Ordinary shares of 10c each        | 50,000,000                  | 5,000          | 50,000,000                  | 5,000          |
| <b>Issued and fully paid up</b>    |                             |                |                             |                |
| <i>Ordinary shares of 10c each</i> |                             |                |                             |                |
| At 1 January                       | 31,250,000                  | 3,125          | 31,250,000                  | 3,125          |
| <b>At 30 September</b>             | <b>31,250,000</b>           | <b>3,125</b>   | <b>31,250,000</b>           | <b>3,125</b>   |

**20 Revenue**

Sales by product during the nine months ended 30 September were as follows:

|                      | <b>2012</b>    | <b>2011</b>    |
|----------------------|----------------|----------------|
| Cheese & Butter      | 105,480        | 110,138        |
| Whole-milk products  | 82,490         | 73,820         |
| Ingredients          | 18,624         | 17,307         |
| <b>Total revenue</b> | <b>206,594</b> | <b>201,265</b> |

Regional sales during the nine months ended 30 September were as follows:

|                      | <b>2012</b>    | <b>2011</b>    |
|----------------------|----------------|----------------|
| Russia               | 132,544        | 132,649        |
| Ukraine              | 66,470         | 58,137         |
| Other                | 7,580          | 10,479         |
| <b>Total revenue</b> | <b>206,594</b> | <b>201,265</b> |

**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**21 Cost of sales**

|  | <b>2012</b>    | <b>2011</b>    |
|--|----------------|----------------|
| Raw and other materials                  | 107,458        | 122,241        |
| Transportation costs                     | 8,835          | 6,774          |
| Wages and salaries                       | 8,813          | 8,058          |
| Depreciation and amortization            | 7,862          | 5,792          |
| Gas                                      | 7,309          | 5,800          |
| Electricity                              | 4,542          | 3,519          |
| Changes in finished goods                | (416)          | (7,873)        |
| Social insurance contributions           | 3,016          | 2,861          |
| Repairs of property, plant and equipment | 2,486          | 1,639          |
| Water                                    | 668            | 514            |
| Other expenses                           | 2,476          | 1,687          |
| <b>Total cost of sales</b>               | <b>150,049</b> | <b>151,012</b> |

**22 Selling and distribution expenses**

|  | <b>2012</b>   | <b>2011</b>   |
|--|---------------|---------------|
| Transportation costs                           | 8,055         | 7,328         |
| Wages and salaries                             | 4,278         | 3,514         |
| Security and other services                    | 2,935         | 2,164         |
| Social insurance contributions                 | 1,327         | 1,120         |
| Marketing and advertising                      | 994           | 682           |
| Licence fees                                   | 248           | 198           |
| Rental costs                                   | 101           | 176           |
| Depreciation and amortisation                  | 101           | 83            |
| Other expenses                                 | 483           | 446           |
| <b>Total selling and distribution expenses</b> | <b>18,522</b> | <b>15,711</b> |



**MILKILAND N.V.****Notes to the condensed consolidated financial statements****For the nine months ended 30 September 2012**

(All amounts in euro thousands unless otherwise stated)

**23 General and administrative expenses**

|  | <b>2012</b>   | <b>2011</b>   |
|--|---------------|---------------|
| Wages and salaries                               | 7,569         | 8,996         |
| Social insurance contributions                   | 1,892         | 1,763         |
| Representative charges                           | 1,647         | 885           |
| Consulting fees                                  | 1,457         | 1,426         |
| Depreciation and amortisation                    | 1,310         | 850           |
| Bank charges                                     | 1,131         | 962           |
| Taxes and other charges                          | 858           | 754           |
| Property insurance                               | 510           | 441           |
| Security and other services                      | 466           | 384           |
| Other utilities                                  | 345           | 451           |
| Repairs and maintenance                          | 320           | 400           |
| Communication                                    | 238           | 192           |
| Transportation costs                             | 285           | 174           |
| Rental costs                                     | 173           | 163           |
| Office supplies                                  | 147           | 58            |
| Other expenses                                   | 419           | 722           |
| <b>Total general and administrative expenses</b> | <b>18,767</b> | <b>18,621</b> |

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

|  | <b>2012</b>    | <b>2011</b>  |
|--|----------------|--------------|
| Government grants recognised as income                                   | 4,875          | 929          |
| Rental income  | 1,048          | 808          |
| Gain from write off of accounts payable                                  | 41             | 347          |
| Change in provision and write off of VAT receivable                      | (4,713)        | 1            |
| Acquisition related cost   | (1,062)        | -            |
| Penalties  | (834)          | (181)        |
| Change in provision and write off of trade and other accounts receivable | (516)          | 147          |
| Loss from disposal of inventories  | (476)          | (624)        |
| Change in provision and write-off of inventories                         | (473)          | 7            |
| Loss from disposal of non-current assets                                 | (391)          | (593)        |
| Depreciation and amortization  | (134)          | -            |
| Change in fair value of financial instruments                            | -              | (33)         |
| Other (expenses)/income, net   | (827)          | 425          |
| <b>Total other (expenses)/income, net</b>                                | <b>(3,462)</b> | <b>1,233</b> |

Acquisition related cost comprised of consulting and legal fees incurred in connection with the acquisition of agricultural companies in Ukraine and cheese production company in Poland (Note 6).

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(All amounts in euro thousands unless otherwise stated)

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**25 Income tax**

|                            | <b>2012</b>  | <b>2011</b>  |
|----------------------------|--------------|--------------|
| Current income tax charge  | 2,894        | (1,045)      |
| Deferred income tax credit | (807)        | 166          |
| <b>Total income tax</b>    | <b>2,087</b> | <b>(879)</b> |

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

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ended 31 December 2012 is 15%.

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**26 Changes in presentation**

In the course of preparation of financial statements for the nine months ended 30 September 2011 management has revised accounting for fixed production overheads from administration expenses to cost of sales.

Due to insignificance government grants recognised as income have been reclassified from separate line items to other expenses. Effects of reclassifications of financial statements for nine months ended 30 September 2011 are summarised in the table below:

|  | <u>As previously<br/>reported</u> | <u>Reclassifications</u> | <u>As reclassified</u> |
|--|-----------------------------------|--------------------------|------------------------|
| <b>Statement of Comprehensive Income</b> |                                   |                          |                        |
| Cost of sales                            | (144,765)                         | (6,247)                  | (151,012)              |
| General and administrative expenses      | (24,868)                          | 6,247                    | (18,621)               |
| Government grants recognised as income   | 929                               | (929)                    | -                      |
| Other (income)/expenses, net             | 304                               | 929                      | 1,233                  |

**27 Contingent and deferred liabilities****Litigation**

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

**Insurance policies**

The Group insures all significant property. As at 30 September 2012 and 2011, most of the Group's property is insured.

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

**Compliance with covenants**

The Group is subject to certain covenants related to its borrowing. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 30 September 2012 and 2011.

**Capital expenditure commitments**

As at 30 September 2012 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 2,204 thousand (31 December 2011: nil). Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

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**28 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 nine months ended 30 September 2012 and 2011 no changes were made in objectives, policies and procedures of the capital management.

**29 Earnings per share**

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| <i>Numerator</i>  |             |             |
| Earnings used in basic and diluted EPS                          | 10,048      | 13,609      |
| <i>Denominator, in thousand</i>                                 |             |             |
| Weighted average number of shares used in basic and diluted EPS | 31,250      | 31,250      |