Milkiland

Annual Report

2011

Contents

FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	2011	2010	2009	2008	2007
Revenue	279,758	256,480	200,008	270,417	164,939
Change in fair value of biological assets	1,859	-	-	-	-
Cost of sales	(203,514)	(161,299)	(129,975)	(187,531)	(107,911)
Gross profit	**78,103**	**95,181**	**70,033**	**82,886**	**57,028**
Operating income (expense), net	(57,068)	(60,354)	(47,831)	(65,517)	(35,995)
Operating profit	**21,035**	**34,827**	**22,202**	**17,369**	**21,033**
Net finance expense and other non-operating income (expense)	(4,947)	(12,980)	(14,281)	(30,878)	(7,184)
Profit (loss) before tax	16,088	21,847	7,921	(13,509)	13,849
Income tax (expense) benefit	(1,291)	147	245	(2,489)	(1,547)
Profit for the year	**14,797**	**21,994**	**8,166**	**(15,998)**	**12,302**
Other comprehensive income (loss)	27,799	8,801	12,929	9,590	(2,764)
Total comprehensive income	**42,596**	**30,795**	**21,096**	**16,958**	**9,538**
Net profit (loss) attributable to equity holders of the parent company	**14,391**	**21,777**	**8,109**	**6,227**	**12,282**
Weighted average common shares outstanding, in thousand	31,250	25,445	25,000	14,173	-
Earnings per share, basic and diluted (EUR)	**46.05**	**85.58**	**32.44**	**43.93**	**-**

Consolidated balance sheet as at 31 December

EUR thousands	2011	2010	2009	2008	2007
Cash and cash equivalents	53,410	37,757	6,676	3,181	28,006
Trade and other receivables	28,994	22,170	21,787	27,210	25,324
Inventories	34,686	26,194	18,866	16,965	18,954
Other current assets	26,527	22,251	9,024	4,916	3,929
Total current assets	***143,617***	***108,372***	***56,353***	***52,272***	***76,213***
PPE	155,616	125,650	119,843	111,974	57,620
Deferred income tax assets	21,061	30,503	5,545	6,989	2,860
Other non-current assets	7,384	3,409	2,307	2,401	71
Total non-current assets	***184,061***	***159,562***	***127,695***	***121,364***	***60,551***
Total assets	**327,678**	**267,934**	**184,048**	**173,636**	**136,764**
Trade and other payables	18,430	15,529	13,576	19,161	28,810
Short-term loans and borrowings	67,153	43,764	30,986	68,679	37,982
Other current liabilities	2,369	1,376	838	1,013	1,336
Total current liabilities	***87,952***	***60,669***	***45,400***	***88,853***	***68,128***
Long-terms loans and borrowings	28,168	36,072	61,949	30,443	36,570
Deferred income tax liability	43,874	47,761	25,993	24,837	2,860
Other non-current liabilities	1,869	454	496	389	-
Total non-current liabilities	***73,911***	***84,287***	***88,438***	***55,669***	***39,430***
Total liabilities	**161,863**	**144,956**	**133,838**	**144,522**	**107,558**
Share capital	3,125	3,125	2,500	2,500	18
Revaluation and other reserves	98,873	71,281	18,537	11,284	(681)
Retained earnings	57,861	42,441	16,525	6,230	28,682
Total equity attributable to equity holders of the parent company	***159,859***	***116,847***	***37,562***	***20,014***	***28,019***
Non-controlling interests	5,956	6,131	12,648	9,100	1,187
Total equity	**165,815**	**122,978**	**50,210**	**29,114**	**29,206**
Total liabilities and equity	**327,678**	**267,934**	**184,048**	**173,636**	**136,764**

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

EUR thousands	2011	2010	2009	2008	2007
EBITDA	34,564	44,312	32,460	29,590	26,762
Net Debt	41,911	42,079	86,259	95,941	46,546
EBITDA Margin,%	12.4%	17.3%	16.2%	10.9%	16.2%
Net Profit Margin,%	5.3%	8.6%	4.1%	2.7%	7.5%
ROE	8.9%	17.9%	16.3%	25.3%	42.1%
ROA	4.5%	8.2%	4.4%	4.2%	9.0%
Market Capitalization	106,250	360,656	-	-	-
Enterprise Value (EV)	154,117	408,866	-	-	-
EV / EBITDA	4.46	9.23	-	-	-
EV / SALES	0.55	1.58	-	-	-
Net Debt / Equity	0.25	0.34	1.72	3.30	1.59
Net Debt / EBITDA	1.21	0.95	2.66	3.24	1.74
Net Debt / Sales	0.15	0.16	0.43	0.35	0.28
Total Debt Ratio	0.49	0.54	0.73	0.83	0.79
Debt / Equity	0.98	1.18	2.67	4.96	3.68
Current Ratio	1.63	1.79	1.24	0.59	1.12
Quick Ratio	1.24	1.34	0.83	0.40	0.84
P/E	7.38	13.48	35.58	-	-
EPS	46.05	85.58	32.44	24.91	-

Formulae for calculation of financial indicators

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

CEO AND CHAIRMAN'S STATEMENT

Dear Consumers, Shareholders, Partners,

A look at the results of the year 2011, the first year of Milkiland as a public company, has reaffirmed our belief in the fundamental strengths of the Group's business, first of all its ability to capitalize on better consumer mood and to generate healthy margins even in a tough operating environment.

Last year, the consumption noticeably recovered in the Group's core markets in Russia and Ukraine. In particular, the real disposal income of population in Russia rose by 7% y-o-y, which led to an increase in the retail trade turnover by 7% y-o-y. The same growth rates in Ukraine amounted to 10% and 14% y-o-y respectively.

The Group not only fully capitalized on these trends but also achieved outpacing rates of top line growth. Milkiland's revenue in Russia increased by 12%. The total Group's revenue rose by c. 9% to EUR c. 280 million.

This growth was driven by higher volumes and better pricing but also by management efforts aimed at further deployment of our flagship international "Dobryana" brand, including modernization of its design both in Russia and Ukraine. Mainly on the back of Russian sales growth, Milkiland retained the status of No.1 Ukrainian cheese exporter with the share in the total export of this product of 29 per cent in volume terms.

From the market and macroeconomic perspective, 2011 was challenging to CIS dairy processors. The upward pressure on costs and unfavourable macroeconomic trends tested their margins. Raw milk prices in Russia were c.15% higher y-o-y. In Ukraine, prices remained stable but de-facto cancellation of the state subsidies for raw milk producers led to increased producer costs. Ukrainian cheese export to Russia was also negatively affected by depreciation of Russian Rouble against USD by c. 9% in late September — beginning of October2011.

Those factors, first of all the absence of the government support to raw milk producers, meant Milkiland had to absorb additional c. EUR 42 million of costs (+26% y-o-y) almost fully related to higher costs of raw materials. As a result, the Group's EBITDA decreased by c. 22% to EUR 34.6 million, EBITDA margin declined to 12.4%.

To offset this unfavourable situation, Milkiland made steps to a more sustainable system of raw milk supply which, we believe, will allow us to improve the security of milk supply and to better control the costs.

First, in 2011 we started to support the milk cooperatives development. Within this program, we helped to establish and start operations for 16 milk cooperatives in 12 regions of Ukraine. They provide veterinary services, feed, financial aid and training to their members aiming at higher milk output and quality. Starting from June 2011, by the end of the year, they attracted over 17,000 members and accounted for more than 21,000 milking cows. The share of cooperative milk in the total milk collection in Ukraine reached c. 18% in December 2011 and amounted to c. 6% for the whole year. In 2012, cooperatives should provide for over 20% of raw milk collected by Milkiland in Ukraine.

Thanks to organic growth of Milkiland's agricultural operations as well as acquisition of four new agricultural subsidiaries in 2011, the Group managed to increase milking cow headcount to 2,900, while in-house milk production more than doubled to 11,000 tons. The land bank under the Group's control rose to c. 21 thousand hectares. In 2012, construction of two modern dairy farms is planned with the total capacity of 6,000 milking cows, which will allow the Group to increase the in-house milk share in the total milk intake of the Group up to c. 7-8%.

Still considering agricultural operations as a non-core business, we are pleased to confirm the positive effect of this segment to the financial performance of the Group in 2011, including the additional contribution c. EUR 1.9 million to the Group's revenue. We believe this effect can be even more evident in the future.

We consider the implementation of the highest standards of the corporate governance as an essential component to deliver the Group's strategy and the year 2011 was not an exception. The Annual General Meeting of Shareholders held on 17 June 2011 appointed a new CEO of the Group, Mr. Fredrick Aherne and reinforced the Board by new Non-executive Director Mr. Gerard Heerink. The main goal of these changes was to bring the best international experience gained by Mr. Aherne during more than 20 years of his occupation of the managerial positions in the international food producer Nestle S.A. and by Mr. Heerink, who served in a leading Dutch diary Friesland Campina, to the day to day operational and strategic activities of the Group. On behalf of the Board, we would like to thank Mr. Vyacheslav Rekov for his many-year efforts in Milkiland and are happy to state that the Group will continue to benefit from his wide professional experience, while he stayed with the Board as a Non-executive Director.

In 2011, we paid attention to operational performance of the Group's business. First, we started the implementation of changes in the corporate structure of the Group to make it more agile, consumer responsive and fit to control our international business. These changes, *inter alia,* include the establishment of the subsidiary holding company to control our assets in Russia, streamlining the control over production assets in Ukraine and establishment of a sub-holding company, Milkiland-Agro, to manage Ukrainian agricultural operations. The Group also focused at cost-cutting measures implemented both in Russia and Ukraine. Reinforcement of our sales team in Russia led to improved profitability of our business in this country.

In 2012, we continue to follow our strategic priority to further develop a sustainable raw milk supply system based on the collaboration with milk cooperatives and an increase in in-house milk production. The major modernisation of Ostankino Diary Combine and our several Ukrainian plants also remains our key task for 2012. We would like to bring new international scale to the Group's business through an M&A in the target markets of Poland, Belarus or Russia. We believe that closure of such deals in 2012 will allow the Group to obviate a risk of possible limitations of access to export market in Russia from Ukraine, related to the sometimes complicated relations between these countries. We also count on opening new delivery channels to Russia and getting access to other markets, including those in the EU countries.

The year 2012 brings new opportunities and new challenges to our business. The re-introduction of the government subsidies to raw milk producers by the Ukrainian Parliament from 1 January 2012 led to a decline in input costs for our production, which should positively influence the Group's margins. The major challenge for Milkiland's business is the on-going dispute with Russia regarding quality of the Ukrainian cheese exported to this country. Some limitations imposed by Russian authorities (Rospotrebnadzor) on export of this product to Russia could weaken our positions in this market.

Milkiland's management believes that our strong commitment and constant efforts to deliver the Group's development strategy in 2012 will bring positive results, new prospects and will strengthen our positions as TOP-5 CIS diary market player. Together with our shareholders, we would like to create our own Success Story which would bring additional value to our business and contribute to healthy stock liquidity and steady capitalization growth of Milkiland.

Sincerely yours,

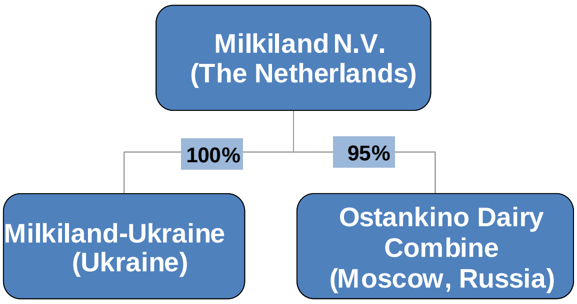
Anatoliy Yurkevych, Chairman of the Board

Fredrick Aherne, Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2011

The Group overview

Milkiland is a diversified dairy producer operating in the CIS, one of the largest and dynamic dairy markets globally, with principal operations in Ukraine and Russia. The Group's holding company Milkiland N.V. is incorporated in the Netherlands, while activities in the CIS are conducted through its wholly-owned Ukrainian subsidiary DE Milkiland-Ukraine ("Milkiland-Ukraine") and Russian 95% owned OJSC Ostankino Dairy Combine ("Ostankino").



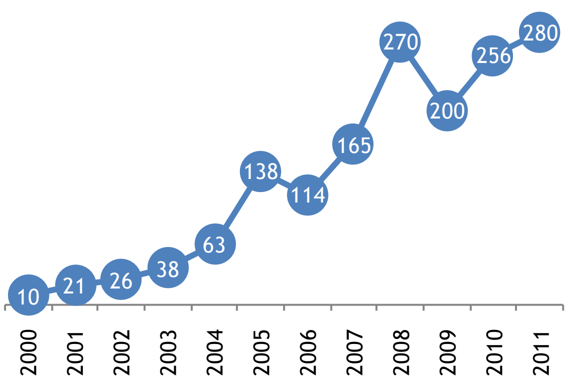
Business of Milkiland-Ukraine includes 10 main dairy plants, extensive milk collection system throughout Ukraine and 8 milk farms. About 80% of the Group's milk is collected and processed in Ukraine. Our Ukrainian business produces a wide range of products that it sells both locally and in overseas markets.

Ostankino is the Moscow-based producer of whole milk products ranking No. 3 on local Moscow market, the largest regional CIS dairy market. Ostankino also serves as a local distributor for significant part of our exports to Russia.

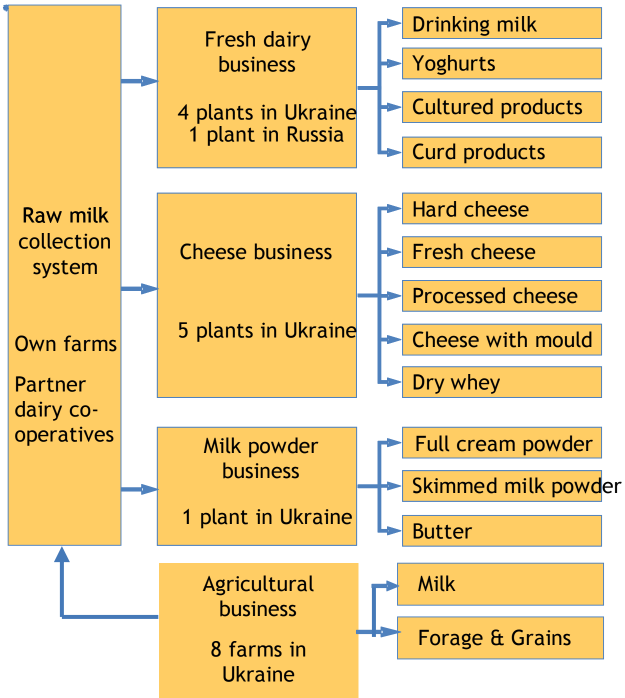
Our dairy plants are able to process up to 1.1 million tonnes of raw milk annually and produce whole milk products, cheese, butter, and dry milk products.

In 2011 Milkiland's consolidated revenues reached EUR 279.8 million, representing a 9% growth over 2011 and an over 32% compound annual growth rate since 2000.

Milkiland's consolidated revenues, EUR mln



Our Group develops as a diversified milk processor with a high level of vertical integration, in order to secure reliable access to raw milk at acceptable price. This enables us to offer quality products to our customers, while controlling costs and sustaining margins. Milkiland's business model is outlined in the diagram below:



Our milk collection system is one of the most extensive in Ukraine and consists of over 1800 collection points in most regions. In 2011 the Group helped to establish a network of 16 partner milk cooperatives, which supply milk under the exclusive contracts with our plants. Thanks to steady development of the agricultural operations of the Group in the last year when the arable land bank in lease further increased by one third to 21,000 hectares we managed to double of in-house milk production up to 11 thousand tons. Thus, we consider this land as a solid background for the establishing a large-scale and modern milk farming business.

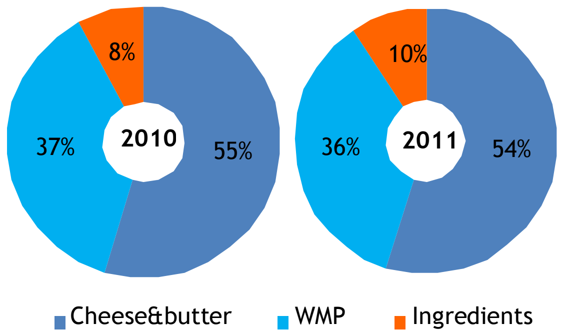
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines based on strategic and tactical considerations.

Whole milk dairy and cheese are Milkiland's core product segments holding together c.84% in the Group's revenues.

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

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

Revenue breakdown by product



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

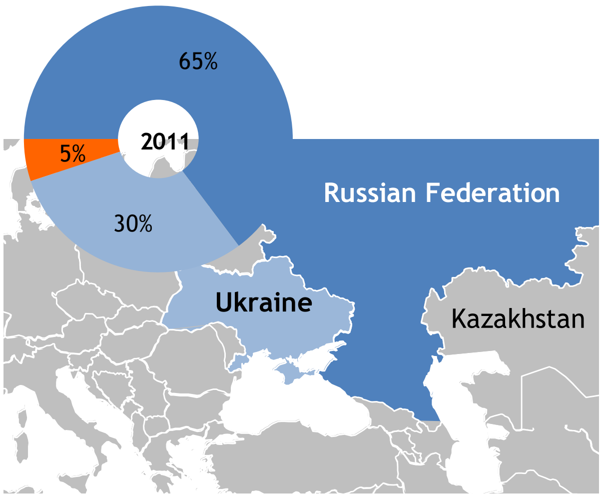
Our consumer products are marketed under two key brands Dobryana and Ostankinskaya. First is our flagship international brand which we are actively deploying in the Russian and Ukrainian markets. Second is a traditional brand for whole-milk products produced by Ostankino Diary Combine, well known by the customers in the Moscow region of Russia. Both are targeting a wide audience of families that are keen of healthy diet and natural dairy products. Most of our products are medium priced and widely affordable.

96% of Milkiland's cheese and c.45% of our whole-milk products (in value terms) in 2011 were sold under Dobryana brand. Another 40% of the whole-milk products we sold under Ostankino brand or under private label programs. Despite the fact that other sales in this segment were still related to non-branded products, their share decreased by half during three past years.

B2B sales comprise up to 10% in the total revenue.

In terms of revenue, Russia is the largest market for Milkiland contributing to over 65% of the Group's total consolidated revenue in 2011. In Russia, the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 30% of the Group's revenue and include all range of dairy products. Approximately 5% of sales in 2011 went to other countries, mainly Kazakhstan.



Key Products, Production and Sales

According to UN Food and Agriculture Organization (FAO), global dairy market has one of the most upward growth potential the total food market. The key growth drivers are demands from Asian countries and Russia. In 2011, global dairy production reached 728 million tons, representing a 2% increase over 2010. Most of the increase comes from developing countries, in particular Argentina, China and India. At the same time, import demand grew 5.4% to 49.5 million tons. Growing world population puts a challenge for world milk production. According to IFCN estimations, milk production will increase almost 200 million tons in the next 15 years, from 700 million in 2010 to 900 million by 2025.

We define Milkiland's home market as former Soviet Union region, namely Russia and Ukraine. This is one of the largest food markets globally, ranking No.5after China, EU, USA, and India, and a very dynamic one with strong growth fundamentals.

While per capita consumption of dairy products in Russia and Ukraine is significantly lower than in the developed EU countries, there are a lot of opportunities for further development of the dairy business in these countries. According to KPMG/Euromonitor estimates, Russian dairy sector is expected to grow 6%-8% in 2012 in volume terms, while prices should climb 8% to 10%. In the period between 2013 and 2015 the annual growth rate will slow down to 4%-6% in volume terms, rising 5% to 7% in monetary terms on higher consumption of value-added products like yoghurts and deserts.

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

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

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

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

Whole Milk Products Segment

Whole milk is the largest and the most diverse dairy segment in the CIS region, estimated in wholesale prices at c. EUR 7 billion in 2011. It includes a variety of products such as drinking milk and highly popular cultured products (sour cream, kefir, ryazhenka etc.), and also curd based snacks (tvorog, curd desserts etc.). Yoghurts are a relatively new product to the market, but their consumption has been developing.

Consumption of whole milk products in the CIS almost doubled since 2000 in volume terms, and during the past three years remains relatively stable at the c. 9 million tons, as the countries in the region continue to overcome crisis aftereffects.

From the market perspective year 2011 was challenging for the CIS whole milk product companies. Upward pressure on producer costs both in Russia and Ukraine was the key factor questioning their performance.

On the backdrop of this trend was a continuing stagnation of raw milk production in Russia and Ukraine, which together with high feed prices in the first half of the year fixed the prices for raw milk at historically high level.

According to Rosstat and Derzhkomstat preliminary data, in 2011, the WMP segment reported modest 1-2% growth in terms of consumption volume because it was somewhat limited by the rising prices for dairy products. Namely, average prices for whole milk products in Russia were 10-15% and in Ukraine were11% higher than in 2011.

Milkiland continued to implement the structural improvements in whole milk products portfolio in 2011 to increase the share of higher value-added products. We removed a number of high-volume and unprofitable positions in drinking milk category and continue to promote in the key markets our cultured products and yoghurts.

One of the examples of the successful promotion of recently introduced products was our thermostatic dairy. The sales in this category in the last year grew by c.40%, their share in the total revenue in WMP segment exceeded 6%. Milkiland has pioneered in its markets, and we plan to develop it into one of our cornerstone products.

Whole milk dairy is one of the most competitive segments in the CIS, with a number of global players offering their best products. We also invest and develop our own brands. Our core international brand Dobryana as well as regional brand Ostankinskaya strengthened its positions in Russia and Ukraine on a backdrop of concentration of our WMP sales under these brands, re-designing of Dobryana brand image and sluggish demand in these countries.

As a result, our total revenues in the fresh dairy segment grew by c.5% and amounted to c. EUR 101 million in 2011. The segment's EBITDA slightly decreased compared to 2010 – from EUR 7.8 million to EUR 6.7 million, reflecting margin squeeze (6.6% vs 8.1%) caused by a higher effective raw milk prices in 2011 also stipulated by the de-facto cancellation of the state subsidies for raw milk producers in Ukraine. The share of fresh dairy in the Group's consolidated revenues stood at c.36% which is only by 1 pp. less than in 2010.

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

Despite modest growth in 2011, whole milk dairy segment remains our strong strategic priority, as we see high growth potential here. For instance, in 2010 per capita packaged drinking milk consumption in Russia and Ukraine was 34 kg and 16 kg, respectively, vs. EU average 49 kg according to Eurostat. The comparison with neighbouring CEE countries, including Poland and Hungary where it stands at more than 70 kg; Romania – with a consumption of about 100 kg, just reinforces this judgment.

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

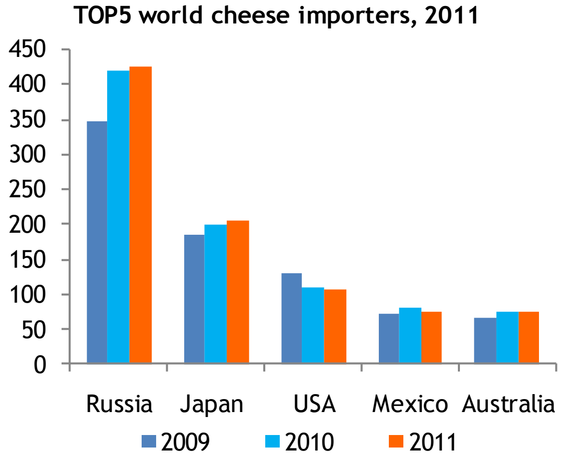
Our point of view on the positive growth prospects of WMP segment is supported by independent researches. In particular, the experts of KPMG/Euromonitor International estimated the increase in drinking and fermented dairy sales in Russia by c. 6% in value terms during next 3 years.

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

In order to fully benefit from our favourable location and expertise, in 2012 we will target our efforts at promotion of high value-added dairy products precisely fit to traditional customer habits of Ukrainian and Russian population as well as recently appeared demand in innovative healthy probiotic products.

Cheese and Butter Segment

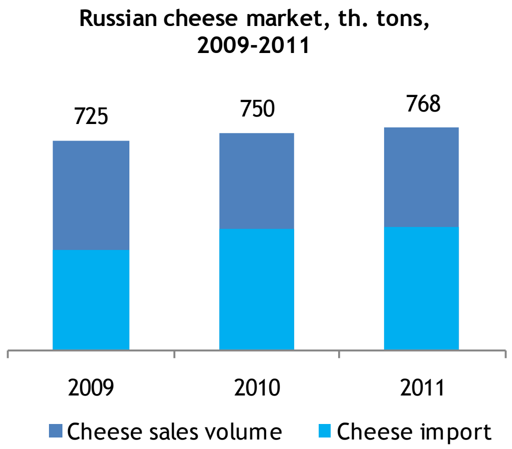
Cheese is the second largest dairy market in the CIS after whole milk products. According to our estimations in 2011 its value in wholesale prices stood at c. EUR 3.9 billion. The lion's share of this market is related to Russia (c. EUR 3.1 billion). Russia became the world's largest cheese importer in recent years, as local production is able to meet no more than half of domestic demand. The deficit was covered by Belarus, Ukrainian, German and other producers.



Sources: USDA, CLAL

Such situation could hardly be changed in coming years. While the volumes of cheese imports to Russia are steadily increasing and in 2011 were 20% higher compared to 2009, domestic cheese production remains essentially flat.

Milkiland is well positioned to capitalize on this trend. Being the No.1 Ukrainian cheese exporter in 2010 and 2011, with a cheese exports revenues of c. EUR 93 million and c. EUR 103 million respectively (mainly gained in Russia), Milkiland improved its position and increased its share in the Russian cheese market.



Sources: BusnesStat, CLAL, Company estimations

Source: Company estimations

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

In 2011 the growth of cheese dairy market segment in CIS was triggered by positive macroeconomic trends, including rising real income of population in our key markets in Russia and Ukraine. At the same time, high farm gate prices for raw milk in both countries together with de-facto cancellation of state support for dairy industry in Ukraine challenged a processor's margins.

As a result of proper management of these threats and opportunities, Milkiland maintained healthy organic growth of cheese sales both in prices and volume terms.

Further deployment of our international Dobryana brand in our key markets contributed the most to this growth. With the sales under this brand amounted c. EUR 130 million, it became one of the largest cheese brands in CIS. In line with Dobryana promotion strategy all non-branded cheese sales were practically eliminated.

Taking into account that Milkiland's exports comprise of branded hard cheese, in 2011 the company's market positions in this segment were significantly improved. We also put a lot of efforts to support a growth in the most dynamic segment of mould cheese, where we managed to increase our sales by c.13%. In butter category, we sold packaged butter under our consumer brands and monolith butter for B2B customers and retailers.

As a result of our sales and marketing efforts in 2011, Milkiland's cheese & butter segment revenues advanced by c.9% to EUR 153.2 million. Segment EBITDA stood at c. EUR 25.4 million, representing a 25% annual decrease. EBITDA margin declined from 24% in 2010 to 16.6% in 2011.

Our long term view on cheese market in the CIS is very bullish, as we see significant growth potential. Per capita consumption of 4-5 kg of hard cheese in the CIS region, first of all Russia and Ukraine, trail many times behind the respective levels of CEE countries. Having observed strong growing demand for cheese in the past decade, we are positive that the growth will continue in line with expected increase in the real income of the population. We consider that new cheese categories will contribute significantly to the growth. Also, we anticipate strong demand for new types of hard cheese, as the level of sophistication of CIS consumers will advance.

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

On the top of attractive market growth prospects, the fragmented industry structure in Russia and Ukraine offers attractive consolidation opportunities. Currently the major part of volume supply comes from dozens of small local players that are facing significant competitive challenges from large producers. We expect significant M&A activity in cheese segment of these countries in the next years and we plan to take part.

Also, we are looking for acquisitions in neighbouring countries with competitive milk prices, such as Poland, Belarus. Our underlying idea is to expand Milkiland's offer with new products and brands, as well diversify the company's production base, while CIS countries will remain the core market for Milkiland.

Ingredients Segment

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

According to the Foreign Agricultural Service of the US Department of Agriculture, in early 2011the world commodity market experienced a sharp rise in dairy prices, as supply notably underperformed demand. By mid-2011, prices for SMP soared to over $4,000/MT FOB Oceania, while butter reached nearly $5,000/MT FOB Oceania and over $6,000/MT in the EU.

This situation provoked a global shift from cheese to milk powder and butter production. Supported by the good weather in the second half of the year in Oceania, major producing regions increased production of milk, which increased the available supply and eased prices.

Globally, the demand for commodity dairy products is rising, as East Asian countries are actively introducing dairy diet to their population, though cannot develop sufficient local supply due to unfavourable conditions for dairy farming. GDP growth in Asia and Oceania is forecasted to increase by 2-3% annually over the next years, thus implying strong import demand for milk powder. China is becoming the largest milk powder importer with an expected 19% rise in 2012. Powder imports are forecasted to stay historically high. On the supply side, exports from both the US and the EU are expected to grow. However, EU exports will be constrained by the domestic demand, as stocks are scarce after 2011.

In 2011 the Group capitalised on these trends and increased our sales of ingredients, both in volume and value terms. This growth was achieved mainly due to better pricing and higher volumes of sales of whole milk powder.

As the result, our revenues in this segment rose by 29% and amounted to EUR 25.8 million. Higher sales of commodity agriculture products produced by our farms and not used for Milkiland's internal purposes also supported this growth. Ingredients sales contributed EUR 3.2 million of EBITDA, representing 11.5% EBITDA margin.

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

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2011 and 2010 in thousands Euro.

Selected financial data

	2011	2010
I. Revenues	279,758	256,480
II. Operating profit	21,035	34,827
III. Profit (loss) before tax	16,088	21,847
IV. Net profit (loss)	14,797	21,994
V. Cash flows provided by (used in) operating activities	9,042	14,553
VI. Cash flows used in investing activities	(9,227)	(6,484)
VII. Cash flows (used in) provided by financing activities	14,175	22,804
VIII. Total net cash flow	15,653	31,107
IX. Total assets	327,678	267,934
X. Current liabilities	87,952	60,669
XI. Non-current liabilities	73,911	84,287
XII. Share capital	3,125	3,125
XIII. Total equity	165,815	122,978
XIV. Weighted average number of shares	31,250,000	25,445,205
XV. Profit (loss) per ordinary share, EUR cents	46.05	85.58

Income Statement

Summary statement of comprehensive income, '000 EUR

	2011	2010
Revenue	279,758	256,480
Change in fair value of biological assets	1,859	-
Cost of sales	(203,514)	(161,299)
Gross profit	78,103	95,181
Operating income (expense), net	(57,068)	(60,354)
Operating profit	21,035	34,827
Net finance expense and other non-operating income (expense)	(4,947,)	(12,980)
Profit (loss) before tax	16,088	21,847
Income tax (expense) benefit	(1,291)	147
Net profit (loss)	**14,797**	**21,994**
Other comprehensive income (loss)	27,799	8,801
Total comprehensive income	**42,596**	**30,795**
Net profit (loss) attributable to equity holders of the parent company	**14,391**	**21,777**
Weighted average number of shares (in millions), as of December 31	31,250	25,445
Earnings per share, basic and diluted (EUR cents)	**46.05**	**85.58**

Revenue

In 2011, the Group's revenue grew c.9% to EUR 279.8million, owing mainly to better sale volumes and price developments.

The following table sets forth an overview of the revenue generated by the Group in 2010 and 2011 by product group.

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

	2011		2010		2011 vs. 2010	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	153,197	54.8%	140,302	54.7%	12,895	9.2%
Whole milk products	100,777	36.0%	96,262	37.5%	4,515	4.7%
Ingredients and other	25,784	9.2%	19,916	7.8%	5,868	29.5%
Total	**279,758**	**100.0%**	**256,480**	**100.0%**	**23,278**	**9.9%**

In terms of revenue, sales of cheese and butter grew 9% y-o-y to EUR 153.2 million and represented 54% of the total consolidated revenue in 2011, practically the same as in 2010. This increase in revenue from cheese sales happened primarily due to favourable pricing situation in the both key regional markets, Russia and Ukraine. In Ukraine, cheese prices gained approximately seven percent resulting from an improved product mix, and also as a reaction to high raw milk prices caused by de-facto cancellation of government subsidies to dairy farmers. In Russia, the growth was moderate, backed by better consumer demand.

In volume terms, cheese sales grew in Russia by healthy 7%, which allowed the Group to strengthen its positions as Ukrainian cheese exporter No. 1. For more information on cheese and butter production and sales, refer section *Key Products, Production and Sales*.

Sales of whole milk products represented approx. 36% of the total consolidated revenue in 2011 vs. approx. 38% in 2010. Revenue generated by sales of whole milk products grew 5% y-o-y to EUR 100.8 million on a back of higher average product prices and better sale volumes in Russia. For more information on whole milk production and sales, refer section *Key Products, Production and Sales*.

Cost of sales

The Group's consolidated cost of sales grew 26% to EUR 203.5 million. The main cost driver was an increase in raw milk expenses.

Year 2011 was challenging for dairy producers in both Russia and Ukraine. While Ukrainian dairy farmers compensated for the de-facto cancellation of government subsidies with stably high prices (+3.5% y-o-y), Russian market demonstrated a further rise with a moderate downward correction in summer. This rise resulted from the lack of raw milk and reviving consumer demand in Russia. As a result, the average yearly raw milk price in Russia was approximately 17% higher than in 2010.

Being a net importer of dairy products Russia was also influenced by the bullish trends of the global dairy market. While high farm-gate prices of the first half of the year were caused by the low per cow productivity and expensive feed after the draught of 2010, in the second half of the year sharply rising global demand contributed to high raw milk prices in Russia. Key production regions faced a sharp rise of farm-gate milk prices over the year. According to international dairy consultancy CLAL.it, farm-gate milk prices in the EU and New Zealand were approximately 13% higher y-o-y, while the US demonstrated an even sharper rise of c. 18%. The world's largest dairy exporter Australian Fronterra stated that the 2011 farm-gate milk price of $7.60 per kilogram of milksolids (kgMS) was also $1.50 higher than the previous 2010 season's $6.10 per kgMS driven by the impact of global commodity prices.

This situation contributed to additional challenges for the dairy processing companies. Rising disposable incomes in Russia contributed to reviving consumer demand in the second half of 2011 and higher end product prices. However, Russian Rouble depreciation in the same period caused a drop in USD- and EUR-denominated prices for dairy products imported from abroad, including Ukrainian cheese, which put additional pressure on producer margins. On the other hand, growing input costs and the absence of government subsidies in Ukraine challenged dairy producers either to seek for alternative raw milk sources or to stop the production of the least profitable products.

Milkiland's cost of raw and other materials (which is mainly milk) increased from EUR 126.4 million to EUR 164.4 million, resulting in a 81% share in total COGS and a 59% share in revenues.

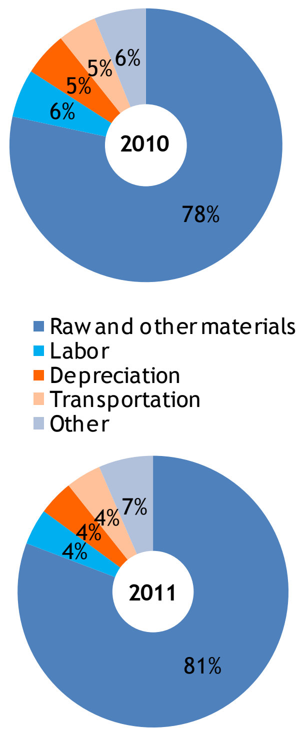
In order to provide a rigid control over input costs, the Group's management focused its efforts on modernizing its raw milk sourcing system. From a supply totally based on the third-parties milk, in 2011 the Group made a step to more secured affiliated raw milk supply system, including supporting milk cooperatives and developing in-house milk production.

Sixteen milk cooperatives supported by the Group were established as unions of individual dairy farmers and started their operations. Starting from nothing in June 2011 by the end of the year they attracted over 17,000 members and accounted more than 21,000 milking cows. The share of cooperative milk in the total volume of raw milk collected by the Group in Ukraine reached c.18% in December 2011 and amounted c. 6% for the whole year.

In 2011, four new agricultural subsidiaries were acquired, arable land bank increased by one third to c. 21,000 ha. Milking cow headcount increased to 2,900 heads. The volume of the in-house milk production doubled and amounted c. 11,000 tons.

The Group's management believes that these efforts will provide for secure and cheaper milk supplies in the future.

The Group's cost of sales structure in 2010-2011



While labour costs were stable (EUR 8.7 million), transportation and gas costs grew as a response to growing sale volumes and rising prices for oil and gas.

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

	2011		2010	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	164,410	58.7%	126,411	49.2%
Wages and salaries	8,727	3.1%	9,198	3.6%
Depreciation	8,559	3.1%	8,396	3.3%
Transportation costs	8,575	3.1%	7,399	2.9%
Gas	6,989	2.5%	6,260	2.4%
Other	6,254	2.2%	3,634	1.4%
Total	**203,514**	**72.7%**	**161,299**	**62.8%**

Gross profit

As a result of growing raw milk costs, Milkiland's gross profit decreased by18% y-o-y to EUR 78.1 million. Gross profit margin was depressed from 37% in 2010 to 28% in 2011. This mainly resulted from de-facto cancelled system of dairy subsidies in Ukraine. Re-introduction of subsidies starting from 2012 will provide for improving marginality of the Group's business. For more information on the Ukrainian government subsidies to dairy farmers, refer to *Material Factors and Events* section.

Selling and distribution expense

The Group's selling and distribution expenses increased by 17% from EUR 18.4 million in 2010 to EUR 21.6 million in 2011 and represented 7.7% in the consolidated revenue in 2011 vs. 7.2% in 2010. Transportation costs, the major component (47% of the S&D expense in 2011), grew by 20% y-o-y from EUR 8.4 million to EUR 10 million, resulting from increased sale volumes and growing fuel prices (up to 30% by December 2011).

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

Administrative expense

The Group's administrative expenses grew from EUR 31.6 million in 2010 to EUR 34.6 million in 2011, representing 12.4% in the consolidated revenue in 2011, same as in 2010. The main reasons for such an increase were growing social insurance contributions. Since January 1, 2011social insurance contributions to the State Pension Fund and social insurance funds in Russia were increased from 26% to 34%. As a result of this increase, social insurance contributions in administrative expense grew from EUR 2.1 million to EUR 3.2 million.

A one off executive director retirement bonus to the former CEO at the amount of EUR 2.1 million has also contributed to the increase in administrative expenses.

Other expenses, net

Other expenses decreased 57% to EUR 4.6 million due to an increase in provision for VAT receivable as a result of a decrease in VAT receivable to be reimbursed by the Ukrainian Government. In 2011, this balance was compensated with the VAT payable by the Group to the state budget, as dairy processors had to pay VAT charged on the end products to the state budget after the change in the subsidy system.

Operating profit and EBITDA

All the above factors contributed to a 40% drop in the Group's operating profit to EUR 21 million and to a 22% decrease in the consolidated EBITDA to EUR 34.6 million. EBITDA margin constituted healthy 12.4% vs. 17.3% in 2010.

Finance expense

The Group's finance expenses decreased by 40% to EUR 7.8 million in 2011 compared to EUR 12.9 million in 2010. This decrease was mainly due to repayment of the most expensive loans started in late 2010. Finance income representing interest on bank deposits grew 61% to EUR 2.3 million. As a result, the net finance expense decreased by 52% y-o-y from EUR 11.5 million to EUR 5.5 million.

Profit before tax and Profit for the year

As a result of challenging operation environment partly compensated by finance cost cutting, the Group's profit before tax decreased by 26% y-o-y to EUR 16.1 million. The Group's net profit decreased by 33% to EUR 14.8 million. The net profit margin constituted 5.3% vs. 8.6% in 2010.

Financial Position

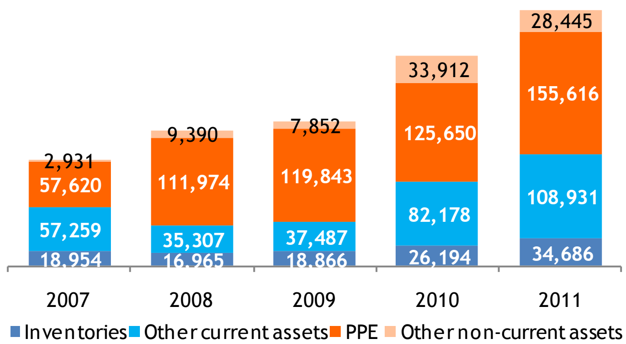
Summary balance sheet as at December 31, '000 EUR

	2011	2010
Cash and cash equivalents	53,410	37,757
Trade and other receivables	28,994	22,170
Inventories	34,686	26,194
Current biological assets	3,422	972
Current income tax assets	498	218
Other taxes receivable	22,607	21,061
Total current assets	***143,617***	***108,372***
Goodwill	4,461	2,117
PPE	155,616	125,650
Non-current biological assets	2,583	729
Other intangible assets	340	347
Deferred income tax assets	21,061	30,503
Investments in associates	-	216
Total non-current assets	***184,061***	***159,562***
Total assets	**327,678**	**267,934**
Trade and other payables	18,430	15,529
Current income tax liabilities	508	365
Other taxes payable	1,861	1,011
Short-term loans and borrowings	67,153	43,764
Total current liabilities	***87,952***	***60,669***
Long-term loans and borrowings	28,168	36,072
Deferred income tax liability	43,874	47,761
Other non-current liabilities	1,869	454
Total non-current liabilities	***73,911***	***84,287***
Total liabilities	**161,863**	**144,956**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	58,320	34,664
Currency translation reserve	(8,134)	(12,070)
Retained earnings	57,861	42,441
Total equity attributable to equity holders of the parent company	***159,859***	***116,847***
Non-controlling interests	5,956	6,131
Total equity	**165,815**	**122,978**
Total liabilities and equity	**327,678**	**267,934**

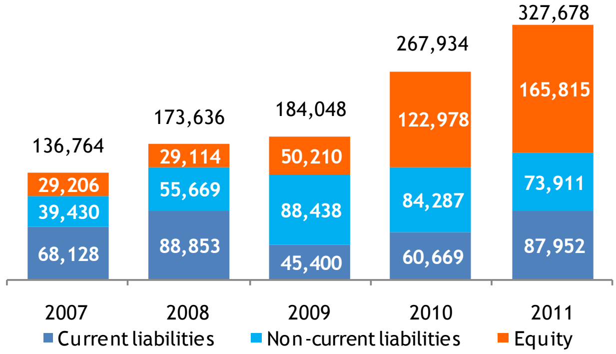
Capital structure and solvency analysis information

	2011	2010
Total debt ratio	0.49	0.54
Debt to equity ratio	0.98	1.18
Net debt/EBITDA	1.21	0.95
Net debt/sales	0.15	0.16

Assets structure in 2007-2011, '000 EUR



Equity and liabilities of the Group in 2007-2011, '000 EUR



Assets

The Group's total assets grew 22% from EUR 267.9 million as of December 31, 2010, to EUR 327.7 million as of December 31, 2011.

Cash and cash equivalents increased from EUR 37.8 million to EUR 53.4 million (41%), mainly as a result of receiving of EUR 22.4 million first tranche of syndicated loan on 29 December 2011. Accounts receivable and inventories increased, respectively, by 31% and 32% over the year, reflecting increased turnover of the business.

Non-current assets grew less considerably, by 15% to EUR 184.1 million mainly due to an increase in PPE by EUR 30 million, as a result of revaluation of assets for EUR 27.7 million, and additions of agricultural production equipment and machinery.

Current assets represented 44% of the total assets, non-current assets - 56% (40% and 60% respectively as of December 31, 2010).

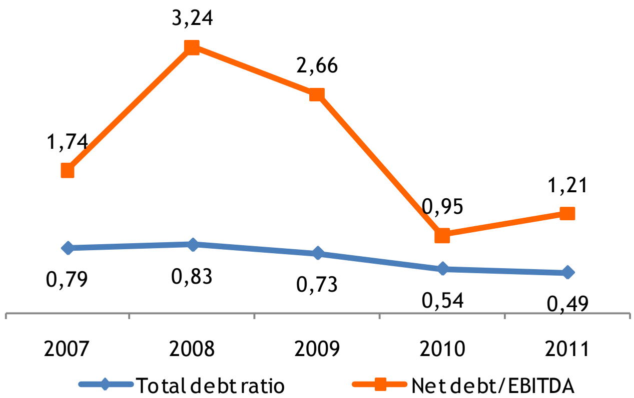
Liabilities and equity

The Group's liabilities grew 12% from EUR 145.0 million as of December 31, 2010, to EUR 161.9 million as of December 31, 2011. Current liabilities grew 45% to EUR 88.0 million, non-current liabilities decreased by 12% to EUR 73.9 million.

The Group's management continued to optimize the debt portfolio in 2011. After the repayment of the most expensive loans and their substitution with lower-interest ones, the average interest rate for short-term loans fell from 12.97% to 10.72%, for long-term loans from 13.04% to 12.68%. Net debt of the Group stood at EUR 41.9 million as of December 31, 2011. Total Debt Ratio constituted 0.49 vs. 0.54 in 2010. Net Debt/EBITDA ratio somewhat increased from 0.95 to 1.21 due to lower EBITDA in 2011, however stayed at a healthy level.

For more information on loans and borrowings contracted by the Group, refer to *Note 17 to the Consolidated Financial Statements* and section *Material Factors and Events*.

Debt ratios of the Group in 2007-2011



A 68% increase in the revaluation reserve and a 36% rise in the retained earnings contributed to a 35% rise in the Group's total equity.

Current liabilities represented 27% of the total equity and liabilities, non-current liabilities 23%, and equity 50% as of December 31, 2011 (23%, 31%, and 46% respectively in 2010).

A decrease in the Group's net profit led to a fall in its ROE from 18% to 9%. At the same time, ROA decreased from 8% to 5%.

A rise in the Group's cash and cash equivalents led to an improvement in the working capital, which grew 17% from EUR 47.7 million to EUR 55.7 million. At the same time, the Group's cash ratio was the same as in 2010.

A sharp increase in the current liabilities due to a rise in the current portion of the long-term borrowings led to worsening of the current and quick ratios to 1.6 and 1.2 respectively.

Over 2011 the Group's average operating cycle increased to 52 days from 36 days, due to higher value of inventories and accounts receivable resulting from higher milk price. Another factor was seasonal increase in the average collection period due to granting the delays of payment to key customers.

For more information on costs, refer to *Note 22 to the Consolidated Financial Statements* and section *Income statement. Cost of sales.*

Balance sheet items and liquidity analysis

Ratios	Definitions	2011	2010
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	39.7	32.1
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	29.3	23.6
Average payment period, days	Average trade payables to cost of sales times number of days in the period	16.8	19.8
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	52.2	36.2
Working capital, '000 EUR	Current assets less current liabilities	55,665	47,703
Current ratio	Current assets to current liabilities	1.6	1.8
Quick ratio	Current assets less inventories to current liabilities	1.2	1.3
Cash ratio	Cash and cash equivalents to current liabilities	0.6	0.6
ROE, %		8.9%	17.9%
ROA, %		4.5%	8.2%

Summary cash flow statement

	2011	2010
Cash flow from operating activities:		
Operating cash flows before working capital changes	32,755	52,781
Changes in assets and liabilities, net	(15,904)	(25,421)
Cash provided by (used in) operations:	16,851	27,360
Net cash from operating activity	**9,042**	**14,553**
Investing activities:		
Proceeds from sale of property, plant and equipment	918	60
Acquisition of property, plant and equipment	(5,552)	(6,327)
Acquisition of subsidiaries, net of cash acquired	(4,593)	(217)
Net cash from investment activity	**(9,227)**	**(6,484)**
Financing activities:		
Acquisition of associates, subsidiaries and non-controlling interest, net of cash acquired	(712)	(7,323)
Proceeds from IPO, net	-	52,781
IPO costs paid	(782)	(2,687)
Proceeds from borrowings	58,712	47,296
Repayment of borrowings	(43,043)	(67,263)
Net cash from financial activity	**14,175**	**22,804**
Effect of exchange rate changes on cash and cash equivalents	1,663	234
Net increase in cash	**15,653**	**31,107**
Cash at beginning of the period	37,757	6,650
Cash at the end of the period	**53,410**	**37,757**

Net cash provided by operating activity decreased by 38% to EUR 9 million on the back of a decreased profit from operations as a result of growing cost of sales. Active development of the in-house milk production through acquisitions and purchase of production equipment led to a considerable increase in the cash outflow from investing activities.

Proceeds from IPO, net represents EUR 0.8 million paid as a commission due to the lead manager of the IPO held in December 2010 and other IPO-related costs.

Net cash at the end of the period grew 41% to EUR 53.4 million. Milkiland relies on cash provided by operating activities as a primary source of liquidity in addition to debt and equity issuances in the capital markets. Based on the current operating performance and liquidity position, the Group believes that cash provided by operating activities and available cash balances will be sufficient for working capital, capital expenditures, interest payments and scheduled debt repayment requirements at least for the next 12 months period.

Key Investments in 2011 and the Sources of their Financing

In 2011, the Group's investments were addressed to a continued consolidation of its key production assets by acquisition of non-controlling interest in Ostankino, as well as by acquisition of farms for its agricultural operations. We also invested into the new machinery and equipment for the dairy processing operations.

The following table represents the Group's key investments in 2007 through 2011 by type.

Key investments in 2007 through 2011, thousands of Euros

	2011	2010	2009	2008	2007
Property, plant and equipment	5,552	6,327	2,190	5,835	24,357
Acquisition of associates and subsidiaries	5,305	7,540	-	27,048	7,389
Total investments	**10,857**	**13,867**	**2,190**	**32,883**	**31,746**

Last year's investments were financed mainly from operational cash flows and by IPO proceeds. For more details on the Company's acquisitions in 2011, refer to section *Material Factors and Events*.

Investment Plans for 2012 and the Sources of their Financing

In 2012 the Group's focuses on the development of raw milk supply system according to our priority to build a complete dairy supply chain aimed to deliver customers products with superior quality.

Our 2012 downstream integration initiatives include, inter alia, establishment of two modern milk farms of over 6,000 cows capacity in total. For more information please see the Section: Strategic outlook for 2012. These will allow securing of the additional amount of high quality raw milk and produce higher value added products.

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

The Group's investment program for 2012 amounts to about EUR 15 million, which primarily to be spent on production upgrade.

The Group will finance this program from operational cash-flow of the business and also from the funds of the loan facility, provided by the syndicate of UniCredit International and Raiffeisen Bank International Group, in the amount of USD 100 million. For additional information see *Material Factors and Events*.

Basis of Preparation

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

Shareholder Structure

As of December 31, 2011, the following shareholders provided information concerning direct or indirect (through subsidiaries) ownership of at least 5% of the total votes at the General Shareholders Meeting of Milkiland N.V.

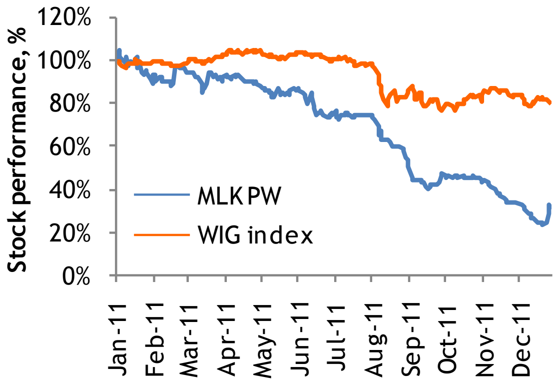
Shareholder structure of Milkiland N.V. as of December 31, 2011

Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,823,588	73.04%	22,823,588	73.04%
Other shareholders	8,426,412	26.96%	8,426,412	26.96%
TOTAL	**31,250,000**	**100.0%**	**31,250,000**	**100.0%**

Share Price Performance

In 2011, Milkiland share price was depressed by several adverse sector-specific and market-specific conditions. Sector-specific conditions included de facto cancellation of government subsidies to dairy industry in Ukraine and high raw milk prices in Russia, while market-specific factors comprised global financial turmoil in the second half of the year and low economic sentiment over Ukraine. However in late December, Milkiland shares added 32 percent from their lows to close at PLN 14.00 per share on the backdrop of positive news about re-introduction of the government subsidy in Ukraine. As a result, on December 31, 2011, Milkiland was trading with Price/Earnings'11 and EV/EBITDA'11 of 7.8x and 4.5x respectively.

Share price performance of Milkiland N.V.



Source: Bloomberg

Milkiland N.V. significant stock quotation data, 2011-2010

	2011	2010
Opening price (PLN)	44.90	33.78
Highest trading price (PLN)	47.50	50.00
Lowest trading price (PLN)	10.40	33.78
Closing price (PLN)	14.00	44.84
Closing price (EUR)	3.40	11.32
Stock performance since IPO (absolute)	-68.8%	32.7%
Stock performance since IPO (relative to WIG)	-47.7%	31.4%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	46.05	85.58
Price / earnings (P/E) as of December 31	7.4x	13.2x

	2011	2010
Market capitalization as of 31 December (PLN million)	437.5	1401.3
Market capitalization as of 31 December (EUR million)	106.2	353.8
Net debt (EUR million)	41.9	42.1
EV (EUR million) as of December 31	154.1	408.9
EV / EBITDA as of December 31	4.5x	9.2x
Free float (PLN million)	98.0	313.9
Free float (EUR million)	23.8	79.2
Average daily turnover (PLN thousand)	292.8	869.9
Average daily turnover (EUR thousand)	71.1	219.6

Source: Bloomberg, management estimates

Management and Personnel

Composition of the Company's Board

As of December 31, 2011, the composition of the Board of Directors of Milkiland N.V. was as follows:

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

All Directors served as Director during the whole 2011. Frederick Aherne was appointed CEO on June 17, 2011.

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

Other information

Except for Mr. Anatoliy Yurkevych and Mrs. Olga Yurkevich, who indirectly together hold 73.04% of the Company's shares, and Mr. Vyacheslav Rekov, who indirectly holds 4.8% of the Company's shares, neither member of the Company's board of Directors nor any Key Executive holds any shares or stock options over such shares in the Company.

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

Personnel

As of December 31, 2011, Milkiland employed 6,642 people, including 189 in the head office in Kyiv and 297 seasonal workers. As Milkiland's production activities are arranged through production subsidiaries (plants), the majority of our personnel are based in Ukrainian regional production units (5,563 people, including 691 people in agricultural units) and Moscow-based Ostankino (890 people).

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

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

Staffing structure comprises about 7% charged with managerial functions and about 17% is service staff. The remaining 76% is divided between core and auxiliary production work force.

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

Training and Professional Development

We strongly believe that high level of competency of our employees is a key factor of our efficiency and market success. In 2011, the internal training programs were developed for the key jobs. 1838 employees were trained during 2011. Production and technical employees were trained under staff development programs focusing on production safety and quality management. All new employees completed skill development on-boarding programs.

Corporate Social Responsibility

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

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

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

In 2011, the Group focused its social activities on rural development and environment, as well as on charity.

We supported rural development by promoting dairy cooperatives. These cooperatives provide veterinary services, feed, financial aid and training to their members thus contributing to better production efficiency and higher living standards in the rural areas. Milkiland provided guidance and training to those individual farmers willing to establish a dairy cooperative. For more information on dairy cooperatives, refer to section *The Group Overview*.

Our environmental initiatives addressed the areas of concern in Mena where our largest cheese plant is located. The plant's sewage system was modernized in order to limit the environmental impact. For 2012, the Milkiland plans to complete the cleaning of the local river, Babka.

Besides, our charity program of 2011 addressed the most vulnerable people: orphans and children with special needs, as well as homeless people.

Material Factors and Events

Material factors and events during the reporting period

Material factors in the Group's milk sourcing

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

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

In accordance with the new Tax Code adopted in December 2010, starting from the 1st of January 2011, the new mechanism of the government support to raw milk producers was implemented. Under the new regulations, the government subsidy should have been paid directly to raw milk producers by government agencies; therefore, milk processing companies were obliged to pay their VAT to state budget in full. Since the new procedures were hard to be settled, raw milk prices stayed high in Ukraine, thus testing processor margins in 2011.

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

Material factors in the Group's marketing

Sales and Distribution Agreements

The Group's products are sold primarily in Ukraine and Russia. A part of sales goes to other CIS countries such as Kazakhstan, Moldova etc. The Group in 2011 also received revenues albeit minor in character from selling products outside CIS. The Group sells its products through local retailers and through dealers and distributors as well. The Group also participates in public tenders for the sale of its products to kindergartens, schools, and other social institutions.

The major distributors of Group's products in its home markets are X5 Retail, Metro, and Fozzi. The Group supplies its products to distributors on the basis of 14-21 days of deferred payment, and to major retail chains on the basis of deferred payment up to 30-45 days.

Material sales and distribution agreements signed by the Group in 2011 are listed below.

DE "Milkiland Ukraine" (subsidiary of Milkiland Group) signed a cheese supply contract with CJSC "Tander" (the Russian Federation). Under the terms of the contract DE "Milkiland Ukraine" supplies CJSC "Tander" with cheese within the term of validity of the contract.

CJSC "Tander" operates the Russian retail chain Magnit, one of the two leading and the fastest growing Russian food retailers. As of December 31, 2011 the chain consisted of 5,006 convenience stores, 93 hypermarkets and 210 drugstores in 1,389 locations in the Russian Federation. The cheese supply contract envisages a test period of two months, during which Milkiland will supply cheese to chain 76 hypermarkets only. After the test period, Milkiland's sales should be expanded to all Magnit food stores in the Russian Federation.

Acquisition of subsidiaries

Acquisition of Ostankino Shares

Under the Russian law, a shareholder who has increased its stake in a company above a 30% threshold must make a mandatory buyout offer to minorities of the company at a price no less than the highest acquisition price for a block in the past six months. On 28 September 2011, the Company published a takeover bid on the entire share capital of Ostankino Dairy Plant valid for 70 days. Within the validity period of this bid, applications for 35,845 shares were received and accepted by Milkiland N.V. (stake of approx. 1.38%). By December 22, 2011 these shares were credited into Milkiland custody account.

As a result, the whole transaction was completed in 2011, and the purchase price was RUR 425 (approx. EUR 9.74). As of 31 December 2011, Milkiland owns 2,591,381 shares in Ostankino dairy plant representing 95.2714% of share capital.

Under the Russian law, such transactions should be secured with a bank guarantee. This transaction was guaranteed by Moscow Industrial Bank. The guarantee was issued on September 6, 2011 for the period ending on July 15, 2012. The guarantee covers the total amount of RUR 69,897,200 with the interest rate of 2% and is pledged with a Company's deposit of

USD 2,500,000 with the same Moscow Industrial Bank.

Acquisition of agricultural subsidiaries

On October 3, 2011 DE "Milkiland Ukraine" acquired 99.9% of the chartered capital of ALLC "Batkivschyna" located in the Bakhmach region of the Chernihiv oblast, which grant a right to 99.9% of voting rights at the general participants meeting. On October 14, 2011, the Antimonopoly Committee of Ukraine issued a permit for this acquisition. ALLC "Batkivschyna" is an agricultural company with approx. 2,400 hectares of arable land under lease and holding about 680 milking cows.

In December 2011, DE "Krasnosilke moloko" and LLC "Milkiland Agro" acquired 100% of the chartered capital of ALLC "Nadiya" and LLC "Zemledar 2020" both located in the Bakhmach region of the Chernihiv oblast, which grant a right to 100% of voting rights at the general participants meeting of these companies respectively. ALLC "Nadiya" and LLC "Zemledar 2020" are agricultural companies which hold together approx. 1,700 hectares of arable land under lease and about 150 milking cows.

In late December 2011, LLC "Milkiland Agro" acquired 100% of the chartered capital of Private Enterprise "Agro Pershe Travnya" located in Bakhmach region of Chernihiv oblast, which grants the right to 100% of voting rights at the general participants meeting. PE "Agro Pershe Travnya" is an agricultural company which operates c. 800 hectares of arable land and about 140 milking cows.

In 2011 the Group also acquired outstanding 55% in AF Konotopska.

The acquisition of these companies was aimed to develop the Group's milk supply chain. After these acquisitions and as a result of land bank expansion by the existing agri-subsidiaries, the Group's arable land bank increased to c. 21 thousand hectares, milking cows headcount to about 2,900 heads.

Acquisition of significant assets

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

Financing arrangements

Signing a Loan Agreement with a Syndicate of Banks

On December 16, 2011 a syndicate of banks UniCredit International (UCI) and Raiffeissen Bank International Group (RBI) signed a USD 100 million loan facility agreement to provide a loan financing to Milkiland N.V. and its subsidiaries (the "Group").

UCI, RBI and Royal Bank of Scotland (RBS) were arrangers and bookrunners of the loan.

The financing in amount of up to USD 100million would comprise a senior secured long term loan for 4 years with a 12-month grace period. The availability period for loan drawdown is 9 months (270 days). The loan is secured by pledge of 94% stake in OJSC "Ostankinskiy Molochniy Combinat", pledge of assets and guarantees from DE "Milkiland Ukraine" and several Ukrainian subsidiaries of the Group.

The proceeds from this facility will be used to repay the existing Ukrainian banks loans (USD 35 million) and for general corporate purposes.

The loan agreement has come into force on December 22, 2011, after the conditions precedent were fully met by the Group.

Changes in the Board of Directors

In 2011, the Annual General Meeting of Shareholders introduced a number of changes to the composition and terms of reference of the Board of Directors. For details, refer to *Corporate Governance Report*.

Material factors and events after the reporting date

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

In late December 2011, the Ukrainian Parliament adopted amendments to the Tax Code putting farmer subsidies back to force starting from January 1, 2012. As a result of subsidy re-introduction, input costs for raw milk started to decline as early as in January. Under the new re-introduced system, 70% of the VAT charged by the dairy processors should be used to pay subsidies to dairy farmers in 2012. The remaining 30% should be paid to a special account of the state budget. In the future, the share of VAT used for subsidies will be cut to 60% in 2013 and 50% in 2014.

Russian export restrictions on Ukrainian cheese

In January 2012, Mr. Gennadiy Onischenko, Chief of Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor), made a number of statements in respect to poor quality of government quality control systems and, specifically, sub-par quality of Ukrainian cheese exported to Russia. Such statements of Mr. Onischenko were protested by Ukrainian authorities and exporters; a number of independent tests were made and provided to Rospotrebnadzor in order to dismiss allegations.

Public escalation of this conflict resulted in restrictions imposed on three largest Ukrainian exporting plants, including Milkiland's Mena plant. A number of meetings between involved parties (sanitary authorities from both countries, as well as cheese exporters) were held in order to settle the issue.

As of today, the Ukrainian and Russian authorities agreed in principle to conduct inspections of restricted plans in order to carry out the in-depths assessment of their production technology and quality controls. Based on the results of these inspections, Rospotrebnadzor will make a decision on lifting the restrictions imposed.

Taking into the account, that Milkiland's Mena plant is one of the best equipped cheese facilities in Ukraine certified according to EU standards, which is also fully meets Russian technical and safety standards, Milkiland is positive about prompt removal of the export limitations for this facility.

In this case, economic impact on Milkiland would be minor, because other exporting plants can satisfy low-season export volumes. Losses associated with temporary low volumes of cheese exports should be compensated by a respective decrease in raw milk price, which already took place in Ukraine from the beginning of 2012.

Fulfillment of Strategy in 2011 and Outlook for 2012

Strategic priorities

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

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

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

We plan to build a long term competitive advantage on access to quality raw milk, as we consider this is one of the most challenging issues for local players. To support our growth and ensure quality offering, we plan to establish our own milk production facilities in order to eventually satisfy 20-25% of our internal needs. Another way to this goal we see in the support of diary cooperatives in Ukraine, which in the nearest perspective can cover another c. 20% of our demand in raw milk.

Geographically, we will focus on the CIS market, as we see a lot growth opportunities here; we plan to develop our production footprint in these core markets by means of reconstruction of the existing and possible acquisitions.

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

We closely watch attractive acquisition opportunities. Milkiland successfully integrated many companies over its history, and we believe this is our strong point. Our target markets are Russia and Ukraine, where the fragmented market structure is favorable for acquisition of smaller players. Paying attention to the other important factors, including access and cost of the raw milk, possibilities of new markets entry, we are also searching for targets in Poland. In any case, the final decision we will make would be made on strategic criteria of providing a long term benefit for Milkiland. Therefore, we will prefer to focus on a few but really winning deals rather than spending our efforts on several smaller targets.

Strategy fulfillment in 2011

In the year 2011 Milkiland made important steps to a more sustainable system of raw milk supply which, we believe, will allow us to improve the security of milk supply and to better control the costs.

First, we started to support the milk cooperatives development by providing aid to establishment and operations of 16 milk cooperatives in 12 regions of Ukraine. These entities aimed at provision of the veterinary services, cattle feed, financial aid and training to their members in order to get the higher milk output and quality. Starting from June 2011, by the end of the year, the cooperatives attracted over 17,000 members and accounted for more than 21,000 milking cows in lease. The share of cooperative milk in the total milk collection of Milkiland in Ukraine reached c. 18% in December 2011 and amounted to c. 6% for the whole year. In 2012, this share is planned to exceed 20%.

Thanks to organic growth of Milkiland's agricultural operations as well as acquisition of four new agricultural subsidiaries in 2011, the Group managed to increase milking cow headcount to 2,900, while in-house milk production more than doubled to 11,000 tons (c. 2% of the total milk intake). The land bank under the Group's control rose by one third to c. 21 thousand hectares.

In order to maintain further high growth rates of in-hose milk production we did a lot of preparatory works to start the construction of two modern dairy farms is planned with the total capacity of 6,000 milking cows. In particular, we purchased the milking equipment of international leading producer DeLaval, with the cost of EUR 2.7 million, which was delivered to Ukraine and now ready for installation.

Some significant accomplishments in 2011 we had in marketing. In order to further promote of our flagship international brand Dobryana in the core markets of Russia and Ukraine, we proceeded with the revitalization of its design. We also continued to follow our marketing strategy aimed at the revision of our portfolio and focusing on modern products with higher marginal contribution. The total SKUs count was decreased by more than 30%, as outdated and loss-making items were removed. Some new products, mainly in WMP segment, were introduced.

Last but not the least; we put efforts to commence the modernization programs of our key production assets in Russia and Ukraine. In the collaboration with European engineering bureau the project of overall upgrade of production premises and equipment in order to increase product quality and improve efficiency in Ostankino was elaborated. After its review by the Group's management, the decision of its implementation could be made.

The supply contract for the delivery of hard cheese production equipment, which installation is planned in 2012 and should increase the capacity of this plant by 7 thousand tons per annum, was signed. The new packaging line for mould cheese was also started in Okhtyrka cheese plant.

Strategic outlook for 2012

We strongly intend to increase efficiency of Milkiland's operational performance in 2012.

In this regard, we plan to finish the implementation of the new corporate structure of the Group to make it more agile, consumer responsive and fit to control our international business.

Our targets in the development of raw milk supply system envisage the establishment in 2012 two modern milk farms with overall capacity of about 6,000 milking cows, capable of producing over 40 thousand tons of high-quality in-hose milk per annum (c. 7-8% of our milk intake).We also continue the support of the milk cooperatives and believe they provide for over 20% of raw milk collected by Milkiland in Ukraine.

The strong background for ambition targets in in-hose milk production will be delivered by means of further growth of own agricultural land bank in the current year up to c. 30 thousands hectares (by c. 40%).

Our investment budget for 2012 amounts to about EUR 15 million. These funds will be mostly invested to finance the modernization of Ostankino and Okhtyrka and construction of own dairy farms.

The Group is also ready to spend up to EUR 50 million for acquisitions of attracted assets in target markets of Russia, Poland, Belorussia or Ukraine.

Material Risk Factors and Threats to the Group

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

Business and industry risks

Exports to Russia

Cheese exports from Ukraine to Russia are subject to approval by the Russian Veterinary and Phytosanitary Authority. In January 2006, the Russian Federation imposed a ban on imports of all dairy products from Ukraine due to the alleged violation of veterinary and sanitary standards by the Ukrainian dairy producers. As a result, a number of Ukrainian cheese makers suffered damages.

In February 2011, the Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance questioned the efficiency of the Ukrainian government quality control system and imposed restrictions on export of cheese produced by three largest Ukrainian cheese plants, including Milkiland's Mena. Later in the same months the list of producers was expanded to seven. For more details on the current situation with Russian export restrictions, refer to section *Material Events After the Reporting Date*.

There can be no assurance that Russia will not apply such or similar measures in the future. If applied, such measures could have a material adverse impact on the Group's business.

Input cost increase

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

Raw milk deficit

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

Exports VAT refunds

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

Contamination of the Group's products

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

Competitive pressure

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

Antimonopoly proceedings

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

Country risks

Economic considerations

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

Exchange and interest rate risk

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

Risks of legislation and judicial system

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

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

Political and governmental considerations

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

CORPORATE GOVERNANCE REPORT

Introduction

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

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

Main points of corporate governance structure

The Company is a public company with limited liability incorporated under Dutch law, having its registered office at Hillegomstraat 12-14, 1058 LS, Amsterdam, the Netherlands. The Company has five subsidiaries: Ostankino (Russian Federation), Milkiland-Ukraine, Milkiland N.V. LLC, Milkiland N.V. Krainy LLC (all – Ukraine), MLK Finance Limited (Cyprus). Ukrainian companies have 33 subsidiaries, including 32 Ukrainian companies and one Panamanian.

Board of Directors

The Company has a one-tier corporate governance structure, managed by the Board of Directors. The Board of Directors is responsible for the management of the Company, its overall results, as well as its mission, vision and strategy. The Board of Directors consists of seven members: three Executive and four Non-Executive Directors. Two Non-Executive Directors, namely Mr. G.W.J. Heerink and Mr. W.S. van Walt Meijer, are independent.

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

Board of Directors - composition

During the year 2011, the composition of the Board of Management was as follows:

A. Yurkevych: Non-Executive Director, appointed Chairman of the Board of Directors as of 28 August 2007 and reappointed as of 17 June 2011;

V. Rekov: Non-Executive Director, appointed as of 28 August 2007 and reappointed as of 17 June 2011;

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

O. Yurkevich: Executive Director, appointed as of 28 August 2007 and reappointed as of 17 June 2011;

F.J. Aherne: Executive Director, appointed as of 06 December 2010;

W. S. van Walt Meijer: Non-Executive Director, appointed as of 06 December2010;

G. W. J. Heerink: Non-Executive Director, appointed as of 17 June 2011.

Board of Directors - Terms of Reference

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

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

Board of directors - Representation

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

Board of directors - Conflict of interest

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

Board of directors - Appointment and profile

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

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

Board of Directors - Committees

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

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

Board of Directors - Miscellaneous

None of the Executive Directors holds more than two supervisory board memberships of listed companies or is a chairman of such supervisory board other than a group company. The total number of the Company's shares held by members of the Board of Directors is 24,323,588 amounting to approximately 77.8% of the issued and paid up share capital of the Company. The shareholding of the Directors has been notified with the AFM (*StichtingAutoriteitFinanciëleMarkten*).

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

With respect to acquiring shares in the Company's capital by the Directors as well as other people that are involved with the Company, the Company follows the provisions of the EU Market Abuse Directive and the Company's

Insider Trading Rules that reflect the provisions of this Directive.
Board Securities Rules of the Company and the Insider Trading Rules can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).

Shareholders and shares

The Company's authorised capital amounts to five million Euros (EUR 5,000,000.00). The issued share capital of the Company amounts to EUR 3,125,000.00 which is divided into 31,250,000 shares with a nominal value of ten eurocent (EUR 0.10) each, all of the same class and kind; there are no shares issued with special rights or privileges attached to them. There are no restrictions imposed by the Company to transfer shares or certificates.
There have been no conflicts of interest situations between the Company and its shareholders.

Shares and general meetings of shareholders
At least once a year, a General Meeting of Shareholders is held. General Meetings of Shareholders are convened by the Board of Directors.
In 2011, one General Meeting of Shareholders was held. The principal decisions taken by the General Meeting of Shareholders were:

- the appointment of Gerard Heerink as new Non-Executive Director;
- adoption of the annual accounts for the financial year 2010;
- discharge of the members of the Board of Directors for the financial year 2010;
- adoption of the Regulation of Division of Duties of Members of the Board of Directors;
- re-appointments of Mr. A. Yurkevych, Mrs. O. Yurkevich and Mr. V. Rekov as members of the Board of Directors for the second four-year period;
- appointment of BDO Audit & Assurance B.V. as the registered accountants of the Company;
- amendment of the Terms of Reference of the Board of Directors, amendment of the Code of Conduct of the Company;
- adoption of the Remuneration Policy of the Company, and
- the authorization of the Board of Directors for a period of 18 months following 17 June 2011 to i) repurchase shares, ii) issue shares and/or grant rights to subscribe for such shares which authorization is limited to 10% of the issued share capital of the Company to be increased with an additional 10% in respect of mergers and acquisitions and iii) restrict or exclude pre-emptive rights in respect of such issue of shares and/or rights to subscribe for such shares.

Notices of a General Meeting of Shareholders are posted on the Company's website and are made in accordance with the relevant provisions of the law. The notice convening a General Meeting of Shareholders shall be published no later than the 42nd day prior to the day of the meeting. The agenda and the explanatory notes thereto shall also be published on the Company's website at the same time. The agenda for the annual General Meeting of Shareholders shall contain, inter alia, the adoption of the annual report, the reservation and dividend policy, a proposal to declare dividends, the proposal to grant a discharge to the members of the Board of Directors from liability and insofar applicable the appointment of an external auditor. Shareholders, insofar entitled to make such request according to the law, can request the Board of Directors in writing to include subjects to the agenda at least 60 days before the date on which the General Meeting of Shareholders is convened.
In accordance with Dutch law, the record date for General Meetings of Shareholders shall be the 28th day before the date of the relevant General Meeting of Shareholders, and the holder of shares as per the record date will be entitled to vote, irrespective of any transfer of such shares between the record date and the date of the General Meeting of Shareholders.
At General Meetings of Shareholders, each ordinary share entitles the holder thereof to cast one vote.
The General Meeting of Shareholders is entitled to resolve to grant approval to decisions of the Board of Directors regarding the identity or the character of the Company, including major acquisitions and divestments.

Internal risk management and control systems

The Board of Directors is responsible for the system of internal risk management and controls of the Company and for reviewing its operational effectiveness.
The internal risk management and control systems are designed to identify significant risks and to assist the Board of Directors and the Company in managing the risks that could prevent the Company from achieving its objectives.

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

Internal audit department

In the financial year 2011, the internal audit function of the Company was performed by the internal audit department and partially by licensed external auditors. The Company recognizes the importance of internal audit and envisages further development of its existing audit function. The main responsibilities of the head of internal audit involve the implementation of the internal control environment, global risk assessment and management, and the realization of regular internal audit functions.

Compliance with the Code

On 17 June 2011 the General Meeting of Shareholders of the Company supplemented a set of corporate governance documents recommended by the Code and WSE Corporate Governance Rules with the following new corporate documents: "Regulation of Division of Duties of Board Members", "Annex 7.1. to the Terms of reference of the Board of Directors - Matters requiring to be adopted with the affirmative vote of majority of non-executive members of the Board of Milkiland N.V." and "Remuneration Policy Milkiland N.V.". The General Meeting of Shareholders also amended "Annex 2.5. to the Terms of reference of the Board of Directors - Code of Conduct of Milkiland N.V." with accepted world best practice concerning incorporation of corporate business values, guidelines and principles. Moreover, the General Meeting of Shareholders approved the changes to the "Terms of reference of the Board of Directors of Milkiland N.V." aimed to raise the responsibilities of the Board of Directors of the Company.

The Company complies with a majority of the WSE Corporate Governance Principles. It is noted that the one tier board structure of the Company deviates from the WSE Corporate Governance Code that prescribes the existence and functioning of two separate governing bodies.
Since the WSE Corporate Governance Rules are similar to the rules provided under the Code, the Company complies with a majority of the principles and best practice provisions of the Code.

The Company does not apply the following provisions of the Code:
Principle III.7 provides that the general meeting shall determine the remuneration of supervisory board members and that remuneration of a supervisory board member is not dependent on the results of the company. The Company provides for the entitlement to grant an annual bonus to the Chairman of the Board of Directors. However, the Company believes that this deviation does not affect the Chairman's capabilities in effectively managing and supervising the Company.

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

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

Best Practice provision III.8.3 provides that chapter III.5 of the Code needs to be applied. In deviation from chapter III.5 of the Code, the Company has not yet established a remuneration committee nor a selection and appointment committee. The Remuneration Policy of the Company foresees the remuneration of board members for several years. The Company believes that it is in the best interest of the Company that a selection and appointment committee is not formed yet and the Board of Directors will conduct the relevant duties that are charged upon this committee on the basis of the Code.

Best Practice provision III.8.4 provides that the majority of the members of the Board of Directors shall be non-executive directors and are independent within the meaning of the Code. Currently the Board of Directors of the Issuer is composed as such that it has majority of Non-Executive Directors. However, only two out of four Non-Executive Directors are independent within the meaning of the Code. The Company believes however that the current composition of the Board of Directors is such that it will provide for proper management and supervision.

Best practice provision IV.3.13: The Company currently has not yet developed an outline policy on bilateral contacts with the shareholders. The Company will develop such a policy and publish it on its website in 2012.

On 17 June 2011 the General Meeting of Shareholders appointed BDO Audit & Assurance B.V. as the registered accountant of the Company for a period of one year, with effect from the same date.

Report of non-executive directors

In 2011,Mr. Anatoliy Yurkevych and Mr. Willem van Walt Meijer proceeded to perform their duties as Non-Executive Directors of the Company. Mr. Frederick Aherne has performed his duties as Non-Executive Director until 17 June 2011 when the General Meeting of Shareholders of Milkiland N.V. adopted the Regulation of Division of Duties of Members of the Board of Directors in which Mr. Frederick Aherne's position was amended to Executive Director. Mr. Vyacheslav Rekov has performed his duties as Executive Director until 17 June 2011 when the General Meeting of Shareholders adopted the Regulation of Division of Duties of Members of the Board of Directors in which Mr. Vyacheslav Rekov's position was amended to Non-Executive Director.

Also the General Meeting of Shareholders of Milkiland N.V. appointed Mr. Gerard Heerink as Non-Executive member of the Board of Directors as of the date of the annual General Meeting of Shareholders on 17 June 2011 and re-appointed Mr. Anatoliy Yurkevych and Mr. Vyacheslav Rekov as Non-Executive members of the Board of Directors for a term of four (4) years and also re-appointed Mrs. Olga Yurkevich as Executive member of the Board of Directors for a term of four (4) years.

The Non-Executive Directors are charged with supervising, monitoring and advising the Executive Directors with respect to all responsibilities of the Board of Directors. Only Mr. Willem van Walt Meijer and Mr. Gerard Heerink are independent within the meaning Best Practice Provision III.2.2 of the Code, Mr. Anatoliy Yurkevych and Mr. Vyacheslav Rekov cannot be considered independent.

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

There were no irregularities in the 2011 financial year that required interventions by the Non-Executive Directors.

Remuneration policy and remuneration report

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

The general policy with regard to the remuneration of members of the Board of Directors was adopted by the General Meeting of Shareholders on 17 June 2011. Individual-specific responsibilities are taken into consideration in respect of the determination and differentiation of the remuneration of the members of the Board of Directors.

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

Information about the remunerations accrued to the Company's Directors in 2011 for rendered services is presented in the table below.

Name	**Position in 2010**	**Appointed**	**2011**			**2010**		
			Remune-ration	Expenses reimbur-sement	Total	Remune-ration	Expenses reimbur-sement	Total
Frederick J. Aherne	Chief Executive Officer	06.12.2010	300,840	0	300,840	39,924	0	39,924
Olga Yurkevich	Member of the Board of Directors, Chief Production Officer	28.08.2007	247,991	0	247,991	1,049,394	0	1,049,394
Anatoliy Yurkevych	Chairman of Board of Directors	28.08.2007	260,380	0	260,380	367,875	0	367,875
Vyacheslav Rekov	Member of the Board of Directors	28.08.2007	50,001	0	50,001	163,850	0	163,850
Pavlo Yokhym	Member of the Board of Directors	09.05.2008	44,877	0	44,877	57,504	0	57,504
Willem van Walt Meijer	Independent director	06.12.2010	44,577	730	45,307	0	0	0
Gerard Heerink	Independent director	17.06.2011	39,562	0	39,562	0	0	0

In addition, the executive director retirement bonus to former CEO, Vyacheslav Rekov was accrued and paid in 2011 at the amount of EUR 2,066 thousand.

Directors' remuneration stands for directors' fees, salaries of Executive Directors, bonuses and other incentive payments. The Company's remuneration policy in 2011 did not provide any reimbursement of Directors expenses.

REPRESENTATIONS OF THE BOARD OF DIRECTORS

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

The Board of Directors hereby represents, to the best of its knowledge, that the statutory financial statements of the Company and its consolidated subsidiaries for the year ended 31 December 2011 are prepared in accordance with the applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position and the result of the Company and its consolidated subsidiaries, and that the report of the Board of Directors for the year ended 31 December 2011 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at 31 December 2011 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended 31 December 2011, including a description of the key risks that the Company is confronted with.

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

The Board of Directors hereby represents that BDO CampsObers Audit & Assurance B.V., which performed the audit of the statutory financial statements of the Company for the year ended 31 December 2011, has been appointed in accordance with the applicable laws and that this entity and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with the applicable provisions of law.

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

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

In 2011, the Board of Directors assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analysis that was carried out at the Company within the framework of governance and compliance, the Board is of the opinion, after consulting with the Audit Committee, that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. There is an inherent limitation in that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty in regards to the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2012.

Board of Directors of Milkiland N.V.

Amsterdam, 20 April 2012

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

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

Management presents the accompanying consolidated financial statements of Milkiland N.V. and its subsidiaries (the "Group") as at 31 December 2011 and for the year ended 31 December 2011 (hereinafter referred to as "IFRS financial statements"), prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2011 had been approved by the Board of Directors.

Board of Directors of Milkiland N.V.

Amsterdam, 20 April 2012

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

(All amounts in euro thousands unless otherwise stated)

	Notes	2011	2010
ASSETS			
Current Assets			
Cash and cash equivalents	8	53,410	37,757
Trade and other receivables	9	28,994	22,170
Inventories	10	34,686	26,194
Current biological assets	14	3,422	972
Current income tax assets		498	218
Other taxes receivable	11	22,607	21,061
		143,617	**108,372**
Non-Current Assets			
Goodwill	12	4,461	2,117
Property, plant and equipment	13	155,616	125,650
Non-current biological assets	14	2,583	729
Other intangible assets	13	340	347
Deferred income tax assets	27	21,061	30,503
Investments in associates		-	216
		184,061	**159,562**
TOTAL ASSETS		**327,678**	**267,934**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	15	18,430	15,529
Current income tax liabilities		508	365
Other taxes payable	16	1,861	1,011
Short-term loans and borrowings	17	67,153	43,764
		87,952	**60,669**
Non-Current Liabilities			
Long-term loans and borrowings	17	28,168	36,072
Deferred income tax liability	27	43,874	47,761
Other non-current liabilities		1,869	454
		73,911	**84,287**
Equity attributable to owners of the Company			
Share capital	18	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		58,320	34,664
Currency translation reserve		(8,134)	(12,070)
Retained earnings		57,861	42,441
		159,859	**116,847**
Non-controlling interests		5,956	6,131
Total equity		**165,815**	**122,978**
TOTAL LIABILITIES AND EQUITY		**327,678**	**267,934**

(All amounts in euro thousands unless otherwise stated)

	Notes	2011	2010
Revenue	20	279,758	256,480
Change in fair value of biological assets	21	1,859	-
Cost of sales	22	(203,514)	(161,299)
Gross Profit		**78,103**	**95,181**
			-
Government grants recognised as income	19	1,463	400
Selling and distribution expenses	23	(21,567)	(18,405)
Administration expenses	24	(34,566)	(31,601)
Other expenses, net	25	(4,603)	(10,748)
Gains on acquisition of subsidiaries	5	2,205	-
Operating Profit		**21,035**	**34,827**
Finance income	26	2,270	1,409
Finance expenses	26	(7,767)	(12,937)
Discount on VAT bonds sold		-	(1,656)
Foreign exchange gain/(loss), net		550	204
Profit before tax		**16,088**	**21,847**
Income tax	27	(1,291)	147
Net profit		**14,797**	**21,994**
Other comprehensive income/(loss)			
Exchange differences on translating to presentation currency		2,673	3,112
Gains on revaluation of properties	13	29,920	2,705
Tax effect on revaluation of properties	13	(4,794)	(676)
Effect from changes in tax rates		-	3,660
Total comprehensive income		**42,596**	**30,795**
Profit attributable to:			
Owners of the Company		14,391	21,777
Non-controlling interests		406	217
		14,797	**21,994**
Total comprehensive income/(loss) attributable to:			
Owners of the Company		42,346	29,421
Non-controlling interests		250	1,374
		42,596	**30,795**
Earnings per share, basic and diluted (in euro cents)	32	**46.05**	**85.58**

(All amounts in euro thousands unless otherwise stated)

	2011	2010
Cash flow from operating activities:		
Profit before taxation	16,088	21,847
Adjustments for:		
Change in fair value of biological assets	(1,859)	-
Depreciation and amortization	9,831	9,664
Foreign exchange gain	(550)	(204)
Loss from write off, revaluation and disposal of non-current assets	3,289	1,764
Change in provision and write off of trade and other accounts receivable	1,996	97
Change in provision and write off of unrealised VAT	1,059	9,337
Change in provision and write off inventories	797	691
Write off of accounts payable	(1,188)	(1,943)
Finance costs, net	5,497	11,528
Gain realised from acquisitions	(2,205)	-
Operating cash flows before working capital changes	**32,755**	**52,781**
Changes in working capital:		
Increase in accounts receivable	(7,694)	(52)
Increase in inventories	(9,074)	(7,565)
Increase in current biological assets	(1,591)	-
Increase in other taxes receivable	(1,930)	(21,079)
Increase in other taxes payable	789	127
Increase in accounts payable	3,596	3,148
Cash provided by operations:	**16,851**	**27,360**
Interest paid	(7,687)	(12,959)
Interest received	2,264	1,440
Income taxes paid	(2,386)	(1,288)
Net cash from operating activity	**9,042**	**14,553**
Investing activities:		
Proceeds from sale of property, plant and equipment	918	60
Acquisition of property, plant and equipment and biological assets	(5,552)	(6,327)
Acquisition of subsidiaries, net of cash acquired	(4,593)	(217)
Net cash from investment activity	**(9,227)**	**(6,484)**
Financing activities:		
Acquisition of non-controlling interest	(712)	(7,323)
Proceeds from IPO	-	52,781
IPO costs paid	(782)	(2,687)
Proceeds from Group companies	-	178
Proceeds from borrowings	58,712	47,118
Repayment of borrowings	(43,043)	(67,263)
Net cash from financial activity	**14,175**	**22,804**
Exchange gains on cash and cash equivalents	1,663	234
Net increase in cash	**15,653**	**31,107**
Cash at beginning of the period	37,757	6,650
Cash at the end of the period	**53,410**	**37,757**

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

	Attributable to equity holders of the company							
	Share capital	Share premium	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
Balance at 1 January 2010	**2,500**		**(14,152)**	**32,689**	**16,525**	**37,562**	**12,648**	**50,210**
Total comprehensive income for the year	**-**	**-**	**2,428**	**5,216**	**21,777**	**29,421**	**1,374**	**30,795**
Acquisition of minority shares in Ostankino	-		(346)	1,496	(598)	552	(7,891)	**(7,339)**
Share issue	625	48,687				49,312	-	**49,312**
Realised revaluation reserve, net of income tax	-		-	(4,737)	4,737	**-**	-	**-**
Balance at 31 December 2010	**3,125**	**48,687**	**(12,070)**	**34,664**	**42,441**	**116,847**	**6,131**	**122,978**
Total comprehensive income for the year	-	-	2,993	-	14,391	17,384	86	17,470
Gains on revaluation of properties, net of tax effect	-	-	-	24,962	-	24,962	164	25,126
Acquisition of minority shares	-	-	943	(11)	(266)	666	(425)	239
Realised revaluation reserve, net of income tax	-	-	-	(1,295)	1,295	-	-	-
Balance at 31 December 2011	**3,125**	**48,687**	**(8,134)**	**58,320**	**57,861**	**159,859**	**5,956**	**165,815**

Notes to the consolidated financial statements

1 The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union for the year ended 31 December 2011 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The financial statements were approved by the Board of Directors on 20 April 2012 and are subject to adoption by the shareholders during the Annual General Meeting.

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

As at 31 December 2011 the Company is owned by 1, Inc. Cooperatief (holding 73.04% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

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

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2011 to 31 December 2011 the Company had the following direct and indirect subsidiaries and associates:

Name	Location	31 December 2011 Effective share of ownership	31 December 2010 Effective share of ownership
Milkiland Corporation	Panama	100%	100%
JSC Ostankino Dairy Combine	Russia, Moscow	95,25%	93,87%
DE Milkiland Ukraine	Ukraine	100%	100%
DE Aromat	Ukraine	100%	100%
PE Prometey	Ukraine	100%	100%
PE Ros	Ukraine	100%	100%
LLC Malka-trans	Ukraine	100%	100%
LLC Mirgorodsky Cheese Plant	Ukraine	100%	100%
JSC Kyiv Milk Plant #1	Ukraine	100%	100%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%
CSC Gorodnia Milk Plant	Ukraine	91,37%	91,37%
LLC Agrosvit	Ukraine	100%	76,0%
LLC Molochnivyroby	Ukraine	100%	100%
DE Borznyanskiy Milk Plant	Ukraine	100%	100%
LLC Moloko-Kraina (2010: LLC Molprod)	Ukraine	100%	100%
LLC Torgovyi dim Milkiland (2010: LLC Syr-Trading)	Ukraine	100%	100%
LLC Ukrainian Milk House	Ukraine	100%	100%
LLC Milkiland N.V Krainy (2010: LLC Molochny pan)	Ukraine	100%	100%
LLC Milkiland N.V (2010: LLC Magazyn Moloko)	Ukraine	100%	100%
LLC Moloko Polissia	Ukraine	100%	83,73%
JSC Transportnyk	Ukraine	70,3%	70,3%
LLC Milkiland Agro (2010: LLC Molgrup)	Ukraine	100%	100%
LLC Stugna-Moloko	Ukraine	100%	100%
LLC Trubizh-Moloko	Ukraine	100%	100%
CJSC Iskra	Ukraine	68,06%	68,06%
DE Agrolight	Ukraine	100%	100%
DE Krasnosilsky Milk	Ukraine	100%	100%
LLC Bachmachregionpostach	Ukraine	100%	100%
LLC Avtek Rent Service	Ukraine	100%	100%
AF Konotopska	Ukraine	100%	45%
LLC Batkivschyna	Ukraine	100%	-
PE Agro Pershe Travnya	Ukraine	100%	-
ALLC Nadiya	Ukraine	100%	-
LLC Zemledar 2020	Ukraine	100%	-

During the year ended 31 December 2011, the Group finalized acquisition of agricultural companies AF Konotopska, LLC Batkivschyna, PE Agro Pershe Travnya, ALLC Nadiya, LLC Zemledar 2020 and acquired all non-controlling interest in agricultural companies LLC Agrosvit, LLC Moloko Polissia (note 5).

2 Operating environment of the Group

Operating environment in Ukraine.

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

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

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

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

Operating environment in Russia.

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

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

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

3 Summary of significant accounting policies

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

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

(a) New standards, interpretations and amendments effective from 1 January 2011

- Amendments to IAS 1 Presentation of Financial Statements (Issued in May 2010 and effective for annual periods beginning on or after 1 January 2011). Applied retrospectively

- Amendment to IAS 24, 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. According to the revised standard the Group disclosed balances and transactions with associates of the parent company in the Note 7.

- Amendments to IFRS 7 Financial Instruments: Disclosures (Issued in May 2010 and effective for annual periods beginning on or after 1 January 2011). Applied retrospectively.

(b) Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group:

- ***'Classification of Rights Issues' (Amendment to IAS 32)***, issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. This is not currently applicable to the Group, as it has not made any rights issues.
- ***IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'***, effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). This is not currently applicable to the Group, as it does not use debt for equity swaps.
- ***Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters- Amendment to IFRS 1.***
- ***'Prepayments of a minimum funding requirement' (Amendment to IFRIC 14).*** The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group, as it does not have any defined benefit assets.

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

- ***IFRS 9, 'Financial instruments'***, issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group recognised UAH 395 million of losses that relate to equity instruments in other comprehensive income. The Group has not yet decided when to adopt IFRS 9.
- ***'Disclosures—Transfers of Financial Assets' (Amendments to IFRS 7)*** issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.
- ***Recovery of Underlying Assets - Amendments to IAS 12*** (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).
- ***Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters - Amendments to IFRS 1*** (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).
- ***IFRS 10, Consolidated Financial Statements*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).

- ***IFRS 11, Joint Arrangements*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- ***IFRS 12, Disclosure of Interest in Other Entities*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- ***IFRS 13, Fair Value Measurement*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- ***IAS 27, Separate financial statements*** (revised in 2011 and effective for annual periods beginning on or after 1 Jan 2013).
- ***IAS 28, Associates and joint ventures*** (revised in 2011 and effective for annual periods beginning on or after 1 Jan 2013).
- ***Amendments to IAS 1, Presentation of Financial Statements*** (issued June 2011, effective for annual periods beginning on or after 1 July 2012).
- ***Amended IAS 19, Employee Benefits*** (issued June 2011, effective for periods beginning on or after 1 January 2013).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Biological assets. The Group classifies livestock (primarily cattle) and unharvested crops as biological assets. Biological assets are carried at their fair value less estimated costs to sell, except when the fair value cannot be measured reliably. If fair value cannot be measured reliably, biological assets are carried at cost less accumulated depreciation and accumulated impairment losses. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Management's estimation of the useful lives of livestock amounts to 8 years.

Gain (loss) from changes in fair value of biological assets included in the consolidated income statement represents the net difference between the excess of the fair value less estimated costs to sell of biological assets over their total cost at the end of reporting period, and the corresponding amount at the beginning of the reporting period.

Agricultural produce. The Group classifies harvested crops as agricultural produce. After harvesting, agricultural produce is treated as inventories.

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

Inventory is accounted for at FIFO method.

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

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

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

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

Investments held-to-maturity

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

Fair value

The Group disclose the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

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

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

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

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

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

Fair value of biological assets

Due to the absence of an active market as defined by International Accounting Standard IAS 41 Agriculture, the fair value of biological assets is estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

Fair value of agricultural produce

Management estimates the fair value of agricultural produce not sold at the end of reporting period by reference to quoted prices in an active market, as required by International Accounting Standard IAS 41. In addition, costs to sell at the point of harvest are estimated and deducted from the fair value. The fair valueless costs to sell becomes the carrying value of inventories at the date of harvesting.

Non-derivative financial liabilities

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

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

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

Impairment of Financial Assets

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

Assets reported at amortized cost

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

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

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

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

Financial investments available for sale

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

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

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

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Leases. The Group leases certain property, plant and equipment. Leases of property, plant, and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

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

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

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

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

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

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

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

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

Income taxes

<u>Current tax</u>

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

<u>Deferred tax</u>

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

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

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

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

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

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

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

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

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

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

Trade and other accounts receivable. Trade and other receivables are stated at an amortised cost using the effective interest rate method. Provisions in respect to non-recoverable amounts estimated as difference between carrying amount of assets and current value of future cash flows discounted using the effective interest rate calculated at initial recognition, are stated in the income statement, if any impairment evidences of assets are available.

Cash and cash equivalents. Cash and cash equivalents include cash in banks and cash desks, bank deposits and high liquid investments with maturity up to three months that can be easily converted to respective cash funds and have insignificant risk of their cost change.

Foreign currency

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

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

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

Foreign operations
The financial statements of subsidiaries and associates are prepared in their functional currencies, which are determined based on the primary economic environment in which they operate.
Upon consolidation, the assets and liabilities of foreign operations are translated to euro at exchange rates at the balance sheet date. The income and expenses of foreign operations are translated to euro at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

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

(All amounts in euro thousands unless otherwise stated)

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

	US dollar	UAH	RUR
Average for year ended 31 December 2011	1.3916	11.0894	40.8509
As at 31 December 2011	1.2939	10.3380	41.6714
Average for year ended 31 December 2010	1.3267	10.5203	40.2980
As at 31 December 2010	1.3362	10.6384	40.3331

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

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

4 Significant accounting estimates and judgments

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

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

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

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

Biological assets.

Due to the absence of an active market, the fair value of biological assets is estimated by present valuing the net cash flows, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the statement of financial position date.

(All amounts in euro thousands unless otherwise stated)

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

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

5 Business combinations

Acquisitions of non-controlling interests. In 2011 the Group acquired 1.38% of non-controlling interest in JSC Ostankino Dairy Combine from minority shareholders having paid EUR 387 thousand. The result of the acquisition at the amount of EUR 195 thousand is recognised directly in equity.

Net assets of Ostankino Dairy Combine as at 31 December 2011	42,167
Share in net assets acquired (1.38%)	582
Consideration paid	(387)
Excess of share in net assets acquired over consideration paid	195

In 2011 the Group acquired non-controlling shares in agricultural companies: 16.27% in LLC Moloko Polissya and 24% in LLC Agrosvit for the total amount of EUR 331 thousand. As a result, the Group's equity interest in these entities increased to 100%. The carrying amount of these companies' net assets in the Group financial statements on the date of acquisition was EUR 1,103 thousand. The Group recognized a decrease in non-controlling interests of EUR 231 thousand and decrease in owners' equity at EUR 101 thousand.

	LLC Moloko Polissya	**LLC Agrosvit**
The carrying amount of net assets at acquisition	440	663
Shares acquired	16.27%	24%
Excess of share in net assets acquired over consideration paid	72	159
Consideration paid	(325)	(6)
Result of acquisition	**(253)**	**153**

Acquisitions of subsidiaries. In 2011 the Group focused on the development of raw milk supply system and acquired outstanding 55% in AF Konotopska and 100% shares in agricultural companies LLC Batkivschyna, PE Agro Pershe Travnya, ALLC Nadiya, LLC Zemledar 2020. These companies are expected to contribute to the development of the stable and cost-efficient supply of raw milk. The management believes that the Group will benefit from this supply base becoming less dependent on the price fluctuations of the main raw materials needed for production, which explains the goodwill.

Due to the fact that the ALLC Nadiya and PE Agro Pershe Travnya have been acquired in the end of 2011, the fair value of the net assets obtained has not been determined due to the short time period before the year-end close. Consequently, the fair value of net assets as at the day of acquisition will be subsequently determined in 2012 by the independent valuator. As a result provisional goodwill at the amount of EUR 2,346 thousand has been recognised. Provisional goodwill relates predominantly to the leasehold land, which is not reflected in the financial statements of acquired entities.

(All amounts in euro thousands unless otherwise stated)

The excess of net assets acquired over the consideration paid is recognized in the income statement as a gain on acquisition of subsidiaries. This gain arises because the fair value of the acquired nonmonetary assets exceeds the amount paid for those assets. This situation is due to the significant risks involved in agricultural business in Ukraine, the lack of financial resources in the acquired companies which prevents them from efficient use of their assets, and a lack of interested buyers.

Identifiable assets acquired and liabilities assumed:	AF Konotopska	LLC Batkivschyna	ALLC Nadiya	LLC Zemledar 2020	PE Agro Pershe Travnya
Cash and cash equivalents	-	109	-	7	-
Accounts receivable	6	327	-	122	-
Taxes receivable	4	34	5	-	-
Inventories	424	1,012	340	(7)	117
PPE	1,447	1,977	271	-	358
Biological assets	486	665	453	-	96
Accounts payable	(65)	(499)	(262)	(5)	(212)
Short-term loans and borrowings	-	(13)	-	-	-
Taxes payable	(8)	(18)	-	-	(36)
Long-term loans and borrowings	-	-	(36)	-	-
Other non-current liabilities	(180)	(925)	(76)	(1)	(279)
Total net identifiable assets	**2,114**	**2,669**	**695**	**116**	**44**
Cash paid	1,088	1,255	926	-	1,203
Payable	-	342	773	9	18
Fair value of identifiable assets	2,114	2,669	695	116	44
Goodwill / (Gain on acquisition of subsidiaries)	**(1,026)**	**(1,072)**	**1,004**	**(107)**	**1,177**

Revenue received and profit/(loss) incurred by the major acquisition from the day of acquisition to 31 December 2011 are as follows:

	AF Konotopska	LLC Batkivschyna
Revenue	1,070	358
Net profit/(Loss)	40	(16)

6 Segment information

The management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board considers the business from both a geographic and product perspective. Geographically, management considers the performance of business in Ukraine, Russia and Netherlands. The Netherlands segment does not meet the quantitative threshold required by IFRS 8 and is not reported.

(All amounts in euro thousands unless otherwise stated)

Ukrainian and Russian segments are further segregated in the following main reportable segments:

- *Cheese&butter*. This segment is involved in production and distribution of cheese and butter. It is the largest Group's segment comprising 54% (2010: 55%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 36% (2010: 38%) of Group's revenue;
- *Ingredients* include production and distribution of dry milk, agricultural products, ice-cream and other products, which - although only contributing a relatively small amount of revenue to the Group, are monitored by the strategic chief operating decision-maker as well.

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

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

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

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

	2011			2010		
	Russia	**Ukraine**	**Total**	**Russia**	**Ukraine**	**Total**
Total segment revenue	110,235	204,819	315,054	100,347	176,808	277,155
Inter-segment revenue	(35,296)	-	(35,296)	(20,675)	-	(20,675)
Revenue from external customers	74,939	204,819	279,758	79,672	176,808	256,480
EBITDA	5,749	29,462	35,211	4,286	40,070	44,356
EBITDA margin	**8%**	**14%**	**13%**	**5%**	**23%**	**17%**
Depreciation and amortisation	3,192	6,639	9,831	3,340	6,324	9,664

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.

(All amounts in euro thousands unless otherwise stated)

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

	2011				2010			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	180,285	100,777	35,851	316,913	161,102	96,262	19,791	277,155
Inter-segment revenue	(27,088)	-	(10,067)	(37,155)	(20,675)	-	-	(20,675)
Revenue from external customers	**153,197**	**100,777**	**25,784**	**279,758**	**140,427**	**96,262**	**19,791**	**256,480**
EBITDA	25,387	6,653	3,170	35,211	33,834	7,773	2,749	44,356
EBITDA margin	17%	7%	12%	13%	24%	8%	14%	17%
Depreciation and amortisation	3,784	5,088	959	9,831	3,605	5,137	922	9,664

A reconciliation of EBITDA to profit before tax:

	2011	**2010**
EBITDA	**35,211**	**44,356**
Other segments EBITDA	(647)	(44)
Total segments	**34,564**	**44,312**
Depreciation and amortisation	(9,831)	(9,664)
Non-recurring items	(3,698)	179
Discounts on VAT bonds	-	(1,656)
Finance costs - net	(5,497)	(11,528)
Foreign exchange loss	550	204
Profit before tax	**16,088**	**21,847**

Non-recurring items:

	2011	**2010**
Gains on acquisition of subsidiaries	2,205	-
Loss/(gain) from disposal and impairment of non-current assets	(3,289)	(1,764)
Gain from write off of accounts payable	540	1,943
Retirement benefits to CEO	(2,066)	-
Non-recurring representative charges and consulting fees	(1,088)	-
	(3,698)	**179**

(All amounts in euro thousands unless otherwise stated)

7 Balances and transactions with related parties

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

Group's transactions with its related parties for the years ended 31 December were as follows:

Entities under common control:	**2011**	**2010**
Sales revenue	1,957	2,723
Finance expenses on other borrowings	(1,123)	(1,563)

Ultimate shareholders:	**2011**	**2010**
Finance expenses on other borrowings	(11)	(226)

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

Entities under common control:	**2011**	**2010**
Trade accounts receivable	855	287
Other accounts receivable	31	272

Ultimate shareholders:	**2011**	**2010**
Current loans from non-financial institutions	-	2,096

At 31 December 2011, the Company's borrowings and fulfillment of contract obligations were secured by ultimate shareholders' guarantees in the amount of EUR 2,760 thousand (2010: EUR 5,826 thousand). There is no compensation in relation to this guarantee.

Key management compensation

Key management includes Board of directors, Chief Financial Officer and Head of Human Resources. The short-term employee benefits paid or payable to key management for employee services is EUR 3,004 thousand (2010: EUR 3,454 thousand), including EUR 140 thousand of bonus accrued and paid for the results of financial year 2010 and EUR 2,066 thousand retirement bonus to former CEO (2010: nil).

8 Cash and cash equivalents

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

	2011	**2010**
Short term deposits	27,740	27,736
Cash in bank and cash on hand	25,670	10,021
	53,410	**37,757**

As at 31 December 2011, short term deposits at the amount of EUR 24,052 thousand (2010: EUR 24,501 thousand) have been pledged as collateral for short-term bank loans (Note 17).

As at 31 December 2011, short term deposits at the amount of EUR 1,932 thousand (2010: EUR nil thousand) have been pledged as collateral for acquisition of non-controlling interest according to the Article 84.2 of Federal Law of Russian Federation on Joint-Stock Companies.

(All amounts in euro thousands unless otherwise stated)

An analysis of the Group's cash and cash equivalents by currency is provided in note 31.
Cash in bank and cash on hand includes EUR 22,413 thousand (USD 29 million) obtained from Syndicate of banks (note 17) and used to settle Ukreksimbank Loan at the amount EUR 13,643 thousand in 2012 year (note 34)

9 Trade and other accounts receivable

	2011	2010
Trade accounts receivable	24,705	20,178
Other financial receivables	284	272
Allowance for doubtful debts	(1,999)	(2,391)
Total financial assets within trade and other receivables	**22,990**	**18,059**
Advances issued	3,924	3,269
Other receivables	5,906	4,228
Allowance for doubtful debts	(3,826)	(3,386)
	28,994	**22,170**

As at 31 December 2011 trade receivables of EUR 2,513 thousand (2010: EUR 6,989 thousand) were past due, but not impaired. They relate to the customers of no default history. Based on historic information, the company creates the allowance for doubtful debts against trade receivables past due.

The analysis of credit quality of trade and other financial receivables is as follows:

	2011		2010	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Current and not impaired				
Retailers	5,285	-	1,908	-
Dealers and wholesalers	7,147	-	327	-
Interest receivable		284	-	272
Total current and not impaired	**12,432**	**284**	**2,235**	**272**
Past due but not impaired				
- less than 30 days overdue	2,433	-	6,908	-
- 30 to 60 days overdue	80	-	81	-
Total past due but not impaired	**2,513**	**-**	**6,989**	**-**
Individually determined to be impaired (gross)				
- less than 30 days overdue	7,652	-	7,234	-
- 30 to 60 days overdue	998	-	1,530	-
- 60 to 90 days overdue	89	-	87	-
- 90 to 360 days overdue	352	-	653	-
- over 360 days overdue	663	-	1,450	-
Total individually impaired	**9,759**	**-**	**10,954**	**-**
Less impairment provision	(1,993)		(2,391)	-
Total	**22,706**	**284**	**17,787**	**272**

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.

(All amounts in euro thousands unless otherwise stated)

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

	2011	2010
Balance 1 January	2,391	2,443
Provided during the year	1,130	850
Receivable written off during the year as uncollectible	(101)	(32)
Unused amounts reversed	(1,415)	(1,048)
Exchange difference	(12)	178
Balance 31 December	**1,993**	**2,391**

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

Other classes of financial assets included within trade and other receivables do not contain impaired assets.
An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 31.

The Group does not hold any collateral as security.

10 Inventories

	2011	2010
Raw and other materials	11,707	10,267
Finished goods and work in progress	21,091	15,400
Agriculture produce	1,888	527
	34,686	**26,194**

At 31 December 2011 and 31 December 2010 bank borrowings are secured on inventories the value of EUR 2,245 thousand (2010: 2,328) (note 17).

Agriculture produce as at 31 December 2010 include a gain from revaluation of maize, wheat and barley at amount EUR 315 thousand (2010: nil).

As at 31 December 2011 inventories are stated net of provision for obsolescence at the amount of EUR 598 thousand (2010: EUR 362 thousand).

11 Other taxes receivable

	2011	2010
VAT recoverable	22,407	20,779
Payroll related taxes	53	86
Other prepaid taxes	147	196
	22,607	**21,061**

VAT receivable as at 31 December 2011 is shown net of provision at the amount of EUR 7,639 thousand (31 December 2010: EUR 8,241 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 28% (2010: 30%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

(All amounts in euro thousands unless otherwise stated)

12 Goodwill

	2011	2010
Balance at 1 January	2,117	1,968
Acquisitions	2,181	-
Foreign currency translation	163	149
Balance at 31 December	**4,461**	**2,117**

The goodwill of EUR 2,117 thousand (2010: EUR 2,117 thousand) is a result of acquisition of Ostankino Dairy Combine in January 2008. Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to a Russian and Ukrainian companies, it is translated each year as part of the translation of the foreign operation.

The provisional goodwill of EUR 2,181 thousand (2010: nil) is a result of acquisition of PE Agro Pershe Travnya and ALLC Nadiya in December 2011 (note 5).

Impairment test for goodwill

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

The recoverable amounts of the cash-generating unit are based on value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 31 December 2016.

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

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

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

	2011	2010
Pre-tax discount rate	15.78%	16.29%
Revenue growth rate for the five-year period	5%	7% - 10%
Net profit growth rate for the five-year period	4% - 11%	4% - 11%
Revenue growth rate after the five-year period	0%	0%

The outcome of the impairment tests is that the recoverable amounts exceed the carrying amounts of the cash-generating units and accordingly no impairment charge has been recorded in 2011 and in 2010. In addition to the impairment test, the principal assumptions were subject to sensitivity analyses, which led to the conclusion that no impairments would arise from reasonable possible changes in a key assumption.

(All amounts in euro thousands unless otherwise stated)

13 Property, plant and equipment and intangible assets

	Land and Buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
At 1 January 2010						
Revalued cost	89,489	26,331	9,576	4,618	464	130,478
Accumulated depreciation and amortisation	(3,887)	(2,967)	(3,317)	-	(125)	(10,296)
Net book value	**85,602**	**23,364**	**6,259**	**4,618**	**339**	**120,182**
Year ended 31 December 2010						
Opening net book value	85,602	23,364	6,259	4,618	339	120,182
Additions	1,337	3,306	1,220	350	32	6,245
Depreciation and amortisation	(3,063)	(4,866)	(1,763)	-	(47)	(9,739)
Transfers	305	(641)	336	-	-	-
Revaluation	1,998	378	105	-	-	2,481
Disposals	(43)	(266)	(299)	(963)	(2)	(1,573)
Exchange rate difference	6,508	1,782	461	354	25	9,130
Closing net book value	**92,644**	**23,057**	**6,319**	**4,359**	**347**	**126,726**
At 31 December 2010						
Revalued cost	99,424	30,244	11,440	4,359	535	146,002
Accumulated depreciation and amortisation	(6,780)	(7,187)	(5,121)	-	(188)	(19,276)
Net book value	**92,644**	**23,057**	**6,319**	**4,359**	**347**	**126,726**
Reclassified to non-current biological assets	-	-	(729)	-	-	(729)
Net book value as reclassified	**92,644**	**23,057**	**5,590**	**4,359**	**347**	**125,997**
Year ended 31 December 2011						
Opening net book value	92,644	23,057	5,590	4,359	347	125,997
Additions	3,816	2,948	1,189	615	96	8,664
Additions from acquisition	3,507	545	-	-	1	4,053
Depreciation and amortisation	(3,241)	(5,097)	(1,681)	-	(52)	(10,071)
Transfers	1,414	1,189	7	(2,610)	-	-
Revaluation	12,023	9,545	6,084	-	-	27,652
Disposals	(461)	(1,044)	(1,344)	(766)	(57)	(3,672)
Exchange rate difference	1,768	803	741	16	5	3,333
Closing net book value	**111,470**	**31,946**	**10,586**	**1,614**	**340**	**155,956**
At 31 December 2011	-	-	-	-	-	
Revalued cost	114,387	38,633	12,839	1,614	577	168,050
Accumulated depreciation and amortisation	(2,917)	(6,687)	(2,253)	-	(237)	(12,094)
Net book value	**111,470**	**31,946**	**10,586**	**1,614**	**340**	**155,956**

At 31 December 2011 bank borrowings are secured on properties for the value of EUR 73,101 thousand (2010: EUR 57,266 thousand) (note 17).

(All amounts in euro thousands unless otherwise stated)

The Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value as at 31 December 2011 and 31 December 2010 was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

As a result of the revaluation, a revaluation surplus net of tax effect of EUR 25,126 thousand (2010: EUR 2,029 thousand) and specific impairments of EUR 2,268 thousand (2010: EUR 224 thousand) (note 24) were recorded.

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

	Land and buildings	Plant and equipment	Other assets	Constructions in progress	Intangible assets	Total
31 December 2010	17,284	14,718	4,447	4,359	347	**41,155**
31 December 2011	37,979	14,464	4,265	2,362	340	**59,409**

At 31 December 2011 the gross carrying value of fully depreciated property, plant and equipment is EUR 1,730 thousand (2010: EUR 1,409 thousand).

14 Biological assets

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

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

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

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

Fair values of biological assets were based on the following key assumptions:

- crops’ revenue is projected based on the expected volume of harvested barley and wheat.
- dairy cattle revenue is projected based on the expected milk produced during their productive life after the reporting date and expected volume of meat at the date of slaughter;
- the average productive life of a cow is determined based on internal statistical information prices for barley, wheat, milk and meat are obtained from market resources as at the end of the reporting period;
- production and costs to sell are projected based on actual operating costs;
- a pre-tax discount rate of 19.60% is applied in determining fair value of biological assets. The discount rate is based on the average cost of capital in Ukraine effective at the reporting date.

The key assumptions represent management’s assessment of future trends in agriculture and cattle farming business and are based on both external and internal sources of data.

(All amounts in euro thousands unless otherwise stated)

As at 31 December biological assets comprise the following groups:

	31 December 2011		31 December 2010	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	3,443	1,840	1,696	784
Other		420		27
	3,443	**2,260**	**1,696**	**811**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Wheat	3,406	1,015	2,497	161
Barley	802	147		-
	4,208	**1,162**	**2,497**	**161**
Total current biological assets		**3,422**		**972**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	2,827	2,541	1,996	729
Other livestock		42		-
	2,827	**2,583**	**1,996**	**729**

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2011:

1 % increase in discount rate	(107)
1 % decrease in discount rate	94
10 % increase in price for milk	306
10 % decrease in price for milk	(311)
10 % increase in price for meat	164
10 % decrease in price for meat	(173)
10 % increase in prices for crops	173
10 % decrease in prices for crops	(173)

(All amounts in euro thousands unless otherwise stated)

The following represents the changes during the year ended 31 December 2011 in the carrying amounts of non-current and current biological assets:

	Non-current biological assets	Current biological assets of animal breading	Current biological assets of plant growing
As at 1 January 2011	**729**	**811**	**161**
Purchases	176	492	-
Additions from acquisitions of subsidiaries	839	566	295
Investments into future crops	-	-	529
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	784	445	337
Transfers	55	(54)	-
Decrease due to harvest	-	-	(160)
As at 31 December 2011	**2,583**	**2,260**	**1,162**

Risk management in agricultural business

The Group is exposed to a number of risks related to its biological assets:

Price fluctuation risk

The Group is exposed to financial risks arising from changes in wheat, barley and milk prices. The Group does not anticipate that prices for its main products will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in prices. Management reviews its outlook for prices regularly in considering the need for active financial risk management.

Climate and other risks

Biological assets are exposed to the risk of damage from climatic changes, diseases, fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular field and farm inspections and industry pest and disease surveys.

15 Trade and other payables

	2011	**2010**
Trade payables	10,952	7,780
Wages and salaries payable	2,009	1,234
Accounts payable for fixed assets	49	193
Accrual for audit fees and consulting services	91	616
Accruals for bonuses	613	1,871
Interest payable	268	365
Total financial liabilities within trade and other payable	**13,982**	**12,059**
Advances received	2,215	1,074
Other accounts payable	798	971
Accruals for employees' unused vacations	1,435	1,425
	18,430	**15,529**

Financial liabilities are normally settled within 60-days period.

(All amounts in euro thousands unless otherwise stated)

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

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 31.

16 Other taxes payable

	2011	2010
VAT payable	759	130
Payroll related taxes	921	557
Other taxes payable	181	324
	1,861	**1,011**

17 Interest bearing loans and borrowings

	2011	2010
Current		
Interest bearing loans due to banks	66,290	28,394
Loans from non-financial institutions	-	5,742
	66,290	**34,136**
Short-term portion of long-term debt		
Interest bearing loans due to banks	475	9,518
Finance leases	388	110
	863	**9,628**
Total current borrowings	**67,153**	**43,764**
Non-current		
Interest bearing loans due to banks	27,730	32,566
Loans from non-financial institutions	-	3,287
Finance leases	438	219
Total non-current borrowings	**28,168**	**36,072**
Total borrowings	**95,321**	**79,836**

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

	2011	2010
6 months or less	64,513	29,210
6-12 months	2,640	14,554
1-3 years	24,654	21,135
3-5 years	3,514	14,937
	95,321	**79,836**

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

	2011				2010			
	USD	UAH	RUR	Total	USD	UAH	RUR	Total
12 months or less								
Outstanding balance, thousand EUR	35,690	4,380	27,083	**67,153**	11,737	8,838	23,189	**43,764**
Average interest rate, %	11.28	18.33	8.80	**10.74**	11.16	24.43	9.52	**12.97**
1-5 years								
Outstanding balance, thousand EUR	24,313	3,855	-	**28,168**	29,025	7,047	-	**36,072**
Average interest rate, %	12.00	19.67	-	**13.05**	11.67	18.69	-	**13.04**

At 31 December 2011 bank borrowings are secured on properties, plant and equipment (note 13), inventories (note 10), cash and cash equivalents (note 8).

In 2011 the group signed a loan facility agreement from a syndicate of banks to provide a loan financing up to USD 100 million. The group obtained first tranche amounting USD 29,000 thousand.

18 Share capital

Share capital as at 31 December is as follows:

	2011		2010	
	Number	EUR 000	Number	EUR 000
Authorised				
Ordinary shares of 10c each	50,000,000	5,000	50,000,000	5,000
Issued and fully paid up				
Ordinary shares of 10c each				
At beginning of the year	31,250,000	3,125	25,000,000	2,500
Other issued for cash during the year	-	-	6,250,000	625
At end of the year	**31,250,000**	**3,125**	**31,250,000**	**3,125**

19 Government grants

Agricultural companies of Milkiland Ukraine Group receive state subsidies in the form of VAT paid for their products by customers. This support is provided to agricultural producers according to the Law of Ukraine “On VAT”. The procedure of its utilisation is settled by Ukrainian Government for each calendar year. The grants at the amount of EUR 1,463 thousand the Group obtained in 2011 (2010: EUR 400 thousand) were recognised as an income.

The Group also received a EUR 140 thousand (2010: nil) of subsidy from the City of Moscow as a partial compensation for opening of a new job positions. The Group recognized this sum as deferred income and calculated a respective amortisation in the amount of EUR 108 thousand (2010: 18 thousand) as deduction of the related depreciation expense.
Deferred income is included in other non-current liabilities.

(All amounts in euro thousands unless otherwise stated)

The movement in deferred income during the year was as follows:

	2011	2010
Balance at the beginning of the year	454	496
Grant obtained during the year	140	-
Amortisation of government grant	(108)	(79)
Foreign exchange difference	(13)	37
Balance at the end of the year	**473**	**454**

The Group obtained and recognised as deduction of the related finance expense grant from the City of Moscow of EUR 1,882 thousand (2010: 638 thousand) on compensation of the finance expenses related to loans and borrowings used to purchase the raw milk (note 26).

20 Revenue

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

	2011	2010
Cheese & Butter	153,197	140,302
Whole-milk products	100,777	96,262
Ingredients	25,784	19,916
Total	**279,758**	**256,480**

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

	2011	2010
Russia	182,662	163,520
Ukraine	82,512	81,234
Other	14,584	11,726
Total	**279,758**	**256,480**

21 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR 1,859 thousand represents the revaluation of cattle and crops predominantly maize and wheat, at fair value less costs to sell.

22 Cost of sales

	2011	2010
Raw and other materials	164,410	126,411
Wages and salaries	8,727	9,198
Depreciation	8,559	8,396
Transportation costs	8,575	7,399
Gas	6,989	6,260
Electricity	3,904	4,044
Social insurance contributions	3,069	2,785
Repairs of property, plant and equipment	2,146	1,499
Water	639	530
Other	1,316	1,903
Changes in finished goods	(4,820)	(7,126)
	203,514	**161,299**

(All amounts in euro thousands unless otherwise stated)

23 Selling expenses

	2011	2010
Transportation costs	10,029	8,378
Security and other services	3,242	2,363
Marketing and advertising	886	998
Wages and salaries	4,729	4,456
Social insurance contributions	1,455	1,104
License fees	258	214
Rental costs	239	264
Depreciation and amortisation	117	118
Other	612	510
	21,567	**18,405**

24 Administrative expenses

	2011	2010
Wages and salaries	14,201	14,405
Social insurance contributions	3,189	2,067
Taxes and other charges	1,445	1,270
Representative charges	2,051	1,833
Other utilities	3,436	2,937
Bank charges	1,185	1,670
Repairs and maintenance	1,537	1,482
Depreciation and amortisation	1,155	1,149
Consulting fees	1,994	968
Security and other services	793	824
Transportation costs	866	561
Property insurance	620	686
License fees	633	539
Rental costs	309	316
Communication	290	259
Office supplies	148	120
Other	714	515
Total	**34,566**	**31,601**

(All amounts in euro thousands unless otherwise stated)

25 Other expenses, net

	2011	2010
Other operating income	(1,797)	(620)
Gain from write off of accounts payable	(1,188)	(1,943)
Penalties	207	251
Loss from write off of inventories	784	635
Gain/(loss) from disposal of non-current assets	1,020	1,540
Change in provision and write off of trade and other accounts receivable	1,996	97
Change in provision and write off of VAT receivable	1,059	9,337
Loss from revaluation of non-current assets	2,268	224
Other expenses	254	1,227
	4,603	**10,748**

26 Finance expenses, net

	2011	2010
Finance expenses		
- Bank borrowings	7,736	10,157
- Other borrowings	-	2,742
- Finance leases	31	38
	7,767	**12,937**
Finance income		
- Bank deposits	(2,270)	(1,409)
	(2,270)	**(1,409)**

In 2011 finance expenses are shown net of government grant from the City of Moscow at the amount of EUR 1,882 thousand (2010: EUR 638 thousand) (note 19).

27 Income tax

	2011	2010
Income tax expense – current	1,438	1,611
Deferred tax (expense) benefit – origination and reversal of temporary differences	(64)	(1,426)
Deferred tax expense (income) resulting from reduction in tax rate	(83)	(332)
Income tax expense / (benefit)	**1,291**	**(147)**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2011 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 23% (January-March 2011: 25%, April-December 201: 23%), Russian profit tax was levied at the rate of 20% (2010: 20%) The profit of seven Ukrainian companies of the Group was subject to single agricultural tax, which is estimated based on the land area and normative valuation of the land. In 2011 the Group has reflected the single tax at the amount of EUR 3 thousand (2010: EUR 3 thousand) in administrative expenses. In 2011 the tax rate for Panama operations was 0% (2010: 0%) on worldwide income.

(All amounts in euro thousands unless otherwise stated)

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

	2011	2010
Profit of companies levied a single agricultural tax (Ukrainian operations)	2,132	96,616
Profit/(loss) of other Ukrainian companies	8,422	(66,084)
Profit/(loss) of Ostankino Dairy Combine	1,328	(1,783)
Profit/(loss) before income tax of non-Ukrainian companies	4,206	(6,902)
Profit before taxation, including	**16,088**	**21,847**
Income tax charge at statutory rate of 23% (2010: 25%) (Ukrainian operations)	1,937	(16,521)
Income tax charge at statutory rate of 20% (Russian operations)	266	(357)
Income tax charge at statutory rate of 25.5% (Dutch operations)	-	-
Income tax charge at statutory rate of 0% (Panama)	-	-
Change in deferred taxes resulting from reduction in tax rate	83	(332)
Provision in respect of irrecoverable deferred tax asset	(4,886)	4,077
Reassessment of deferred tax liability	(260)	(114)
Tax effect of items which are permanently not deductible or assessable for taxation purposes	**4,151**	**13,100**
Income tax expense / (benefit)	**1,291**	**(147)**

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

	2011	2010
Deferred tax liability	(43,874)	(47,761)
Deferred tax asset	21,061	30,503
	(22,813)	**(17,258)**

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2010	Deferred tax income or expense recognised in profit or loss	Deferred tax relating to items that are charged or credited directly to other comprehensive income	Currency Translation	31 December 2011
Recognised deferred tax assets attributable to the following elements:					
Trade and other receivables	1,425	908	-	83	2,416
Inventories	2	(5)	-	-	(3)
Other non-current liabilities	92	7	-	(3)	96
Property, plant and equipment	11	68	-	5	84
Trade and other payables	3,041	(2,677)	-	(106)	258
Advances received	105,524	(21,894)	-	1,475	85,105
Other	139	(14)	-	(4)	121
Tax losses carried forward	-	-	-	-	-
Less accrued provision	(8,057)	4,886	-	121	(3,050)
Netting with deferred tax liabilities	(71,674)	7,708	-	-	(63,966)
Deffered tax assets	**30,503**	**(11,013)**	**-**	**1,571**	**21,061**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	316	(215)	-	(7)	94
Trade and other receivables	-	-	-	-	-
Advances paid and prepaid expenses	(104,195)	17,568	-	(1,751)	(88,378)
Property, plant and equipment	(15,556)	1,039	(4,794)	(245)	(19,556)
Netting with deferred tax assets	71,674	(7,708)	-	-	63,966
Deferred tax liabilities	**(47,761)**	**10,684**	**(4,794)**	**(2,003)**	**(43,874)**
Total deferred tax assets and liabilities	**(17,258)**	**(329)**	**(4,794)**	**(432)**	**(22,813)**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2010:

	31 December 2009	Deferred tax income or expense recognised in profit or loss	Deferred tax relating to items that are charged or credited directly to other comprehensive income	Currency Translation	31 December 2010
Recognised deferred tax assets attributable to the following elements:					
Trade and other receivables	1,158	179	-	88	1,425
Inventories	12	(11)	-	1	2
Other non-current liabilities	100	(16)	-	8	92
Property, plant and equipment	-	11	-	-	11
Trade and other payables	187	2,872	-	(19)	3,041
Advances received	49,665	52,661	-	3,198	105,524
Other	62	72	-	5	139
Less accrued provision	(3,819)	(4,077)	-	(161)	(8,057)
Netting with deferred tax liabilities	(41,820)	(29,854)	-	-	(71,674)
Deferred tax assets	**5,545**	**21,837**	**-**	**3,120**	**30,503**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	-	322	-	(6)	316
Advances paid and prepaid expenses	(48,828)	(52,141)	-	(3,226)	(104,195)
Property, plant and equipment	(18,983)	1,886	3,010	(1,469)	(15,556)
Netting with deferred tax assets	41,820	29,854	-	-	71,674
Deferred tax liabilities	**(25,991)**	**(20,079)**	**3,010**	**(4,701)**	**(47,761)**
Total deferred tax assets and liabilities	**(20,446)**	**1,758**	**3,010**	**(1,581)**	**(17,258)**

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

	2011	**2010**
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	20,588	30,363
- Deferred tax asset to be recovered within 12 months	473	140
	21,061	**30,503**
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	(24,648)	(39,979)
- Deferred tax liability to be recovered within 12 months	(19,226)	(7,782)
	(43,874)	**(47,761)**
Deferred tax liabilities, net	**(22,813)**	**(17,258)**

(All amounts in euro thousands unless otherwise stated)

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

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

As at 31 December 2011 deferred tax assets are shown net of provision for irrecoverable deferred tax assets at the amount of EUR 3,051 thousand (2010: 8,057).

28 Changes in presentation

As the Group continues to invest in agricultural segment and biological assets became significant as at 31 December 2011 and are planned to further grow, management has reclassified current and non-current biological assets in the statement of financial position as at 31 December 2011 as the separate line items.

In the course of preparation of financial statements for the year ended 31 December 2011 management has revised trade discounts to customers from selling expenses to reduction of revenue.

Effects of reclassifications of statement of comprehensive income for 2010 are summarised in the table below:

	As previously reported	Reclassifi-cations	As reclassified
Statement of financial position			
Property, plant and equipment	126,379	(729)	125,650
Non-current biological assets	-	729	729
Inventories	27,166	(972)	26,194
Current biological assets	-	972	972
Statement of Comprehensive Income			
Revenue	258,495	(2,015)	256,480
Selling and distribution expenses	(20,420)	2,015	(18,405)
Consolidated Statement of cash flows			
Investing activities:			
Acquisition of subsidiaries and non-controlling interest	(7,323)	7,323	-
Financing activities:			
Acquisition of non-controlling interest	-	(7,323)	(7,323)

(All amounts in euro thousands unless otherwise stated)

29 Contingent and deferred liabilities

Litigation

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

Insurance policies

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

In 2011 the Company insured its property, plant and equipment for a total amount of EUR 101,271 thousand (2010: EUR 87,012 thousand).

30 Capital management policy

Main objectives of the Group's capital management policy are the improvement of the financial independence and liquidity coefficient, improvement of accounts receivable structure and capital impairment.
Basic capital structure management methods are profits maximization, investment program management, borrowed capital management, use of borrowing costs of different classes.

The Group manages its capital structure and modifies it in accordance with economic conditions change. Aimed at maintenance or change of the capital structure, the Group may regulate the amount of dividends, return the capital to shareholders or issue new shares. For the years ended 31 December 2011 and 2010 no changes were made in objectives, policies and procedures of the capital management.

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

The Group has external requirements to the capital:

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

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

The Group has met external capital disclosures per 31 December 2011.

As at 31 December 2011 the net debt to capital ratio was 20.17% compared to 25.49% a year before. The net debt to capital ratio at 31 December is as follows:

	2011	2010
Total borrowings	95,321	79,836
Less: cash and cash equivalents	(53,410)	(37,757)
Net debt	**41,911**	**42,079**
Total equity	165,815	122,978
Total capital	**207,726**	**165,057**
Net debt to capital ratio	**20.18%**	**25.49%**

(All amounts in euro thousands unless otherwise stated)

31 Financial risk management

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

Market risk

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

Foreign exchange risk

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

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

As of 31 December 2011 the Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR	USD	RUR	UAH	PLN	Total
Financial Assets						
Financial receivables trade and other receivables	-	1,252	12,565	9,173	-	22,990
Cash and cash equivalents	6,019	24,496	2,801	20,082	12	53,410
Total financial assets	**6,019**	**25,748**	**15,366**	**29,255**	**12**	**76,400**
Financial Liabilities						
Loans and borrowings	-	60,002	27,083	8,236	-	95,321
Financial payables within trade and other payables	520	12	3,887	9,563	-	13,982
Total financial liabilities	**520**	**60,014**	**30,970**	**17,799**	**-**	**109,303**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2010:

	EUR	USD	RUR	UAH	Total
Financial Assets					
Financial receivables within trade and other receivables	-	1,326	9,105	7,628	18,059
Cash and cash equivalents	12,087	17,218	57	8,395	37,757
Total financial assets	**12,087**	**18,544**	**9,162**	**16,023**	**55,816**
Financial Liabilities					
Loans and borrowings	-	40,761	23,189	15,886	79,836
Financial payables within trade and other payables	8	1,871	3,768	6,412	12,059
Total financial liabilities	**8**	**42,632**	**26,957**	**22,298**	**91,895**

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

	2011		**2010**	
	Impact on profit or loss	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
USD strengthening by 10% (2010: 10%)	(3,427)	(3,427)	(2,409)	(2,409)
USD weakening by 10% (2010: 10%)	3,427	3,427	2,409	2,409
Euro strengthening by 10% (2010: 10%)	550	550	1,208	1,208
Euro weakening by 10% (2010: 10%)	(550)	(550)	(1,208)	(1,208)
RUR strengthening by 10% (2010: 10%)	(1,240)	(1,240)	(1,780)	(1,780)
RUR weakening by 10% (2010: 10%)	1,240	1,240	1,780	1,780
PLN strengthening by 10% (2010: 10%)	1	1	-	-
PLN weakening by 10% (2010: 10%)	(1)	(1)	-	-

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

Credit risk

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

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

(All amounts in euro thousands unless otherwise stated)

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

	2011	2010
Ratings by Moody's		
Aa3	-	4
Baa1	151	44
Baa2	107	-
Baa3	2	-
Ba1	-	38
B3	19,292	2,780
Unrated	33,758	34,777
Cash	100	114
	53,410	**37,757**

Trade and other financial receivables. The monitoring and controlling of credit risk is performed by sales department and analyst department of the Company. The credit quality of each new customer is evaluated before the Company provides it with the standard terms of supply, including credit limit and payment delay. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. Customers that do not meet the credit quality requirements are supplied on a prepayment basis only. The Company controls following the credit limits of all existing customers as well as timely settlement of trade and other accounts receivable (note 9). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers' default risk.

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

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 9.

	2011		2010	
	Carrying value	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Financial assets				
Cash and cash equivalents	53,410	53,410	37,757	37,757
Trade and other receivables	22,990	22,990	18,059	18,059
	76,400	**76,400**	**55,816**	**55,816**

Interest rate risk

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

(All amounts in euro thousands unless otherwise stated)

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

At the end of 2011 the Group had approximately 68% (2010: 91%) of its borrowings in fixed rate instruments and 32% (2010: 9%) in variable rate instruments.

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

	2011	2010
Post tax profit reported for the year ended 31 December 2011	14,797	21,994
Effect from change of 1 % of interest rates	(876)	(864)
Post tax profit reported for the year ended 31 December 2011 including change	13,922	21,130

	2011	2010
Equity reported as at 31 December 2011	165,814	122,978
Effect from change of 1 % of interest rates	(876)	(864)
Equity reported as at 31 December 2011 including change	164,938	122,114

Liquidity risk

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

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

	Up to 6 months	6-12 months	1 - 3 years	3 - 5 years
Trade and other accounts payable (note 15)	13,982	-	-	-
Borrowings	56,222	16,935	25,774	2,038
Total	**70,204**	**16,935**	**25,774**	**2,038**

Comparative information at 31 December 2010 is as follows:

	Up to 6 months	6-12 months	1 - 3 years	3 - 5 years
Trade and other accounts payable (note 15)	12,059	-	-	-
Borrowings	29,210	14,554	21,135	14,937
Total	**41,269**	**14,554**	**21,135**	**14,937**

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

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

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

32 Earnings per share

	2011	2010
Numerator		
Earnings used in basic and diluted EPS	14,391	21,777
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	25,445

33 Audit fees

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

	BDO Audit & Assurance B.V.	**BDO Accountants &Belastingadviseurs**	**Member firms/affiliates**	**Total**
Charged to administrative expenses				
Audit annual accounts	181	-	-	**181**
Tax advisory fees	-	29	-	**29**
Total	**181**	**29**	**-**	**210**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2010:

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

34 Subsequent events

Loan obtained from Syndicate of banks (note 17) have been partially used to settle Ukreksimbank Loan at the amount EUR 13,643 thousand in 2012.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts in euro thousands unless otherwise stated)

	Notes	2011	2010
ASSETS			
Current Assets			
Cash and cash equivalents		2,146	2,603
Amounts due from group companies	5	41,578	18,028
Other receivables and prepayments	5	47	90
Other taxes receivable	5	22	26
		43,793	**20,747**
Fixed assets			
Financial fixed assets			
Goodwill	3	2,033	2,117
Investments in subsidiaries	4	146,965	103,121
		148,998	**105,238**
TOTAL ASSETS		**192,791**	**125,985**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	9,774	8,838
Other payables	7	935	300
		10,709	**9,138**
Non-Current Liabilities			
Loans and borrowings	8	22,096	-
Other liabilities		127	-
		22,223	**-**
Shareholder's equity			
Issued and paid-up share capital		3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		58,320	34,664
Currency translation reserve		(8,134)	(12,070)
Unappropriate result		57,861	42,441
Total equity	6	**159,859**	**116,847**
TOTAL LIABILITIES AND EQUITY		**192,791**	**125,985**

(All amounts in euro thousands unless otherwise stated)

	Notes	**2011**	**2010**
Revenue from Group companies		1,073	116
Administration expenses	9	(1,455)	(160)
Other expenses		(33)	-
Operating loss		**(415)**	**(44)**
Finance income		617	47
Finance expense		(333)	(40)
Foreign exchange gain/(loss), net		152	(369)
Loss before tax		**21**	**(406)**
Income tax		-	(95)
Share of profit of participating interests, after income tax		14,370	22,278
Profit for the year		**14,391**	**21,777**

1. General

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

2. Significant accounting policies

Basis of preparation

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

Foreign currency

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

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

Financial fixed assets

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

Receivables

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

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

Cash and cash equivalents

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

Current liabilities

The short term liabilities are due within one year.

(All amounts in euro thousands unless otherwise stated)

Bank borrowings

Bank borrowings are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

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

3. Goodwill

The goodwill of EUR 2,033 thousands is a result of a subsidiary acquisition and recognized as an asset. Goodwill is initially recognized as an asset during the primary evaluation. Impairment testing is performed annually.

For details see note 12 consolidated financial statements.

4. Investments in participating interests

	2011	**2010**
Ostankino Dairy Combine, Russia	40,165	39,738
DE Milkiland Ukraine	106,798	63,383
Milkiland LLC	2	-
	146,965	**103,121**

Movement during the year is the following:

	2011	**2010**
At 1 January	103,121	65,472
Profit for the year	14,391	22,278
Currency translation differences	4,166	2,816
Change in revaluation reserve	24,962	1,753
Acquisition of minority shares in Ostankino Dairy Combine, Russia	88	7,339
Acquisition of subsidiaries	237	-
Effect from changes in tax rates (Ukraine)	-	3,463
At 31 December	**146,965**	**103,121**

(All amounts in euro thousands unless otherwise stated)

5. Receivables

	2011	**2010**
Receivables from group companies		
Milkiland Ukraine	33,010	18,028
PE Ros	4,819	-
LLC Malka-trans	2,677	-
Milkiland Corporation	1,073	-
Other receivables	46	90
	41,625	**18,118**
Taxes and social security		
Input VAT	22	26

On December 13 2010 Milkiland N.V. issued a loan to Milkiland Ukraine at the amount of EUR 18,000 thousand bearing interest rate of 3% per annum.

On December 16 2011 Milkiland N.V. issued a loan to Milkiland Ukraine, PE Ros and LLC Malka-trans at the amount of EUR 14,982 and 4,834 and 2,684 thousand respectively with interest rate of 11% per annum.

Accrued interest as at 31 December 2011 amounts EUR 93 thousand (2010: 28 thousand).

6. Shareholder's equity

The authorized share capital of the company amounts to EUR 5,000,000 consisting of 50,000,000 ordinary shares with a nominal value of EUR 0.10 each.

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

in thousands euro	Issued and paid-up share capital	Share premium	Currency translation reserve	Revaluation reserve	Retained earnings and unappropriate result	Total
Balance as at 31 December 2009	**2,500**	**-**	**(14,152)**	**32,689**	**16,525**	**37,562**
Total comprehensive income for the year	**-**	**-**	**2,428**	**5,216**	**21,777**	**29,421**
Acquisition of minority shares in Ostankino	-	-	(346)	1,496	(598)	**552**
Share issue	625	48,687	-	-	-	**49,312**
Realised revaluation reserve, net of income tax	-	-	-	(4,737)	4,737	**-**
Balance as at 31 December 2010	**3,125**	**48,687**	**(12,070)**	**34,664**	**42,441**	**116,847**
Total comprehensive income for the year	**-**	**-**	**2,979**	**-**	**14,391**	**17,370**
Gains on revaluation of properties, net of tax effect	-	-	-	24,962	-	24,962
Acquisition of minority shares	-	-	957	(11)	(266)	680
Realised revaluation reserve, net of income tax	-	-	-	(1,295)	1,295	-
Balance as at 31 December 2011	**3,125**	**48,687**	**(8,134)**	**58,320**	**57,861**	**159,859**

(All amounts in euro thousands unless otherwise stated)

7. Trade and other payables

Amounts due to Group companies:

	2011	2010
Accounts payable to Milkiland Corporation	9,274	8,770
Accounts payable to Milkiland Ukraine	310	68
LLC Ukrainian Milk House	46	-
LLC Syr-Trading	46	-
LLC Molgrup	46	-
LLC Molochny pan	28	-
LLC Magazyn Moloko	19	-
LLC Molprod	5	-
	9,774	**8,838**

Other payables:

	2011	2010
Other accounts payable	390	178
Current income tax liabilities	104	116
Wages and salaries payable	441	6
	935	**300**

Accounts payable to Milkiland Corporation include a loan received from Milkiland Corporation at the amount of EUR 3,870 thousand (2010: EUR 3,870 thousand) bearing interest rate of 3% per annum. Accrued interest as at 31 December 2010 amounts EUR 116 thousand (2010: 31). Accounts payable to Milkiland Corporation at the amount of EUR 5,288 thousand (2010: EUR 4,869 thousand) are free of interest rates.

8. Loans and borrowings

In 2011 the group signed a loan facility agreement from a syndicate of international banks to provide a loan financing up to USD 100 million. The group obtained first tranche amounting USD 29,000 thousand.

For details see note 17 to consolidated financial statements.

9. Administrative expenses

	2011	2010
Consultancy fee	171	43
Tax advisory and audit fee	155	34
Wages and salaries	969	76
Other expenses	160	7
	1,455	**160**

Audit fees are disclosed in note 33 to consolidated financial statements.

10. Remuneration of Board of Directors members

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

Board of Directors of Milkiland N.V.

Amsterdam, 20April 2012

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the accompanying financial statements 2011 of Milkiland N.V., at Amsterdam as set out on pages 45 till 102. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2011 the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

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

Auditor's responsibility

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

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

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Milkiland N.V. as at December 31, 2011 its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Milkiland N.V. as at December 31, 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

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

Rotterdam, 20 April 2012

BDO Audit & Assurance B.V.
on its behalf,

J.C. Jelgerhuis Swildens RA

CORPORATE INFORMATION

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Milkiland: Healthy performance in challenging environment

Press-release

Kyiv, 20th April 2012 - *Milkiland N.V. has published its consolidated annual report for the year 2011. The Group demonstrated healthy 2011 results in a challenging market environment. New drivers will fuel the Group's growth in 2012.*

Key highlights of 2011

Financials

- **Financial performance:** Revenue grew 9% to EUR 279.8 million. EBITDA 22% down, EBITDA margin down to 12.4% in 2011 on the back of high raw milk prices in Russia and de facto cancellation of milk subsidies in Ukraine. Net profit of EUR 14.8 million 33% down y-o-y
- **Financial position:** The Group's total assets grew 22% y-o-y to EUR 327.7 million. Balance sheet strengthened with total debt ratio reduced from 0.54 to 0.49, net debt stayed at the level of 2010. Net Debt/EBITDA ratio somewhat increased from 0.95 to 1.21 due to lower EBITDA in 2011, however stayed at a healthy level. Working capital grew 17% from EUR 47.7 million to EUR 55.7 million
- **Net cash** by the year end increased by EUR 15.7 million and reached EUR 53.4 million

Operations

- **Raw milk prices**: Continuing stagnation of raw milk production in Russia and Ukraine, as well as high feed prices in the first half of the year resulted in a high level of milk prices. In Russia, raw milk priced c. 15% higher y-o-y, despite a feeble summer downward correction. In Ukraine, milk prices were stable y-o-y, but de-facto cancellation of government subsidies to dairy farmers led to an increase in producer costs
- **Milk sourcing system: In order to** offset the increase in input costs, as well as to ensure the availability of quality raw milk, Milkiland management elaborated and implemented a new milk sourcing plan for Ukrainian facilities. The new milk sourcing plan covered two areas, (a) further vertical integration of the Group's manufacturing and in-house milk production and (b) support of milk cooperatives in the regions of operations
- **Milkiland retained its positions of cheese exporter No. 1 in Ukraine** with the share in the total export of this product of 29% in volume terms. The Group's share in the Russian cheese market grew to almost 3%
- **Operational performance in focus:** changes in the corporate structure of the Group are introduced to make it more agile, consumer responsive and fit to control Milkiland's international business
- Increased profitability in **Ostankino** due to improved sales and cost cutting: Ostankino EBITDA rose from EUR 4.3 million in 2010 to EUR 5.7 million in 2011 or by roughly one third

Milkiland reached historically record high earnings driven by better volume sales and a favourable price situation. As a result, revenue grew 9% to EUR 279.6 million. At the same time, challenging situation on the raw milk market contributed to a 22% decrease in EBITDA to EUR 34.6 million with EBITDA margin of 12.4%.

After the repayment of the most expensive loans and their substitution with the loans with lower interest rates, Milkiland's finance expense decreased by 40% to EUR 7.8 million. The average interest rate for short-term loans fell from 13.0% to 10.7%, for long-term loans from 13.0% to 12.7%.

In the year 2011 Milkiland made important steps to a more sustainable system of raw milk supply which, we believe, will allow us to improve the security of milk supply and to better control the costs. First, the Group started to support milk cooperatives by providing aid to establishment and operations of 16 milk cooperatives in 12 regions of Ukraine. Starting from June 2011, by the end of the year, cooperatives attracted over 17,000 members and accounted for more than 21,000 milking cows in lease. The share of cooperative milk in the total Milkiland's milk collection in Ukraine reached c. 18% in December 2011 and amounted to c. 6% for the whole year. In 2012, this share is planned to exceed 20%. Second, organic growth of Milkiland's agricultural operations as well as acquisition of four new agricultural subsidiaries in 2011 contributed to an increase in milking cow headcount to 2,900, while in-house milk production more than doubled to 11,000 tons (c. 2% of the total milk intake). The land bank under the Group's control rose by one third to c. 21,000 hectares.

We plan to build a long term competitive advantage on access to quality raw milk, as we consider this is one of the most challenging issues for local players. To support our growth and ensure quality offering, we plan to establish our own milk production facilities in order to eventually satisfy 20-25% of our internal needs. Another way to this goal we see in the support of diary cooperatives in Ukraine, which in the nearest perspective can cover another c. 20% of our demand in raw milk.

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

We closely watch attractive acquisition opportunities. Milkiland successfully integrated many companies over its history, and we believe this is our strong point. Our target markets are Russia and Ukraine, where the fragmented market structure is favourable for acquisition of smaller players. Paying attention to the other important factors, including access and cost of the raw milk, possibilities of new markets entry, we are also searching for targets in Poland and Belarus. In any case, the final decision we will make would be made on strategic criteria of providing a long term benefit for Milkiland. Therefore, we will prefer to focus on a few but really winning deals rather than spending our efforts on several smaller targets.

Comment by Anatoliy Yurkevich, Chairman of the Board of Directors, Milkiland N.V.
“We believe that our strong commitment and constant efforts to deliver the Group’s development strategy in 2012 will bring positive results, new prospects and will strengthen our positions as TOP-5 CIS diary market player. We would like to bring a new international scale to the Group’s business through an M&A in the target markets of Poland, Belarus or Russia.”

About Milkiland N.V.

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

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

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

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