Milkiland

Annual Report

2012

Contents

FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	287,013	279,758	256,480	200,008	270,417
Change in fair value of biological assets	934	1,859	-	-	-
Cost of sales	(209,737)	(214,101)	(161,299)	(129,975)	(187,531)
Gross profit	**78,210**	**67,516**	**95,181**	**70,033**	**82,886**
Operating income (expense), net	(56,172)	(46,481)	(60,354)	(47,831)	(65,517)
Operating profit	**22,038**	**21,035**	**34,827**	**22,202**	**17,369**
Net finance expense and other non-operating income (expense)	(6,669)	(4,947)	(12,980)	(14,281)	(30,878)
Profit (loss) before tax	15,369	16,088	21,847	7,921	(13,509)
Income tax (expense) benefit	(1,808)	(1,291)	147	245	(2,489)
Profit for the year	**13,561**	**14,797**	**21,994**	**8,166**	**(15,998)**
Other comprehensive income (loss)	(524)	27,799	8,801	12,929	9,590
Total comprehensive income	**13,037**	**42,596**	**30,795**	**21,096**	**16,958**
Net profit (loss) attributable to equity holders of the parent company	**12,771**	**14,391**	**21,777**	**8,109**	**6,227**
Weighted average common shares outstanding, in thousand	31,250	31,250	25,445	25,000	14,173
Earnings per share, basic and diluted (EUR)	**40.87**	**46.05**	**85.58**	**32.44**	**43.93**

Consolidated balance sheet as at 31 December

EUR thousands	2012	2011	2010	2009	2008
Cash and cash equivalents	23,850	53,410	37,757	6,676	3,181
Trade and other receivables	48,236	28,994	22,170	21,787	27,210
Inventories	25,487	34,471	26,194	18,866	16,965
Other current assets	16,374	26,527	22,251	9,024	4,916
Total current assets	**113,947**	***143,402***	***108,372***	***56,353***	***52,272***
PPE	189,129	156,121	125,650	119,843	111,974
Deferred income tax assets	9,754	21,061	30,503	5,545	6,989
Other non-current assets	11,611	7,094	3,409	2,307	2,401
Total non-current assets	**210,494**	***184,276***	***159,562***	***127,695***	***121,364***
Total assets	**324,441**	**327,678**	**267,934**	**184,048**	**173,636**
Trade and other payables	15,120	18,430	15,529	13,576	19,161
Short-term loans and borrowings	50,526	67,153	43,764	30,986	68,679
Other current liabilities	2,104	2,369	1,376	838	1,013
Total current liabilities	**67,750**	***87,952***	***60,669***	***45,400***	***88,853***
Long-terms loans and borrowings	46,427	28,168	36,072	61,949	30,443
Deferred income tax liability	30,715	43,874	47,761	25,993	24,837
Other non-current liabilities	864	1,869	454	496	389
Total non-current liabilities	**78,006**	***73,911***	***84,287***	***88,438***	***55,669***
Total liabilities	**145,756**	**161,863**	**144,956**	**133,838**	**144,522**
Share capital	3,125	3,125	3,125	2,500	2,500
Revaluation and other reserves	94,474	98,873	71,281	18,537	11,284
Retained earnings	74,702	57,861	42,441	16,525	6,230
Total equity attributable to equity holders of the parent company	**172,301**	***159,859***	***116,847***	***37,562***	***20,014***
Non-controlling interests	6,384	5,956	6,131	12,648	9,100
Total equity	**178,685**	**165,815**	**122,978**	**50,210**	**29,114**
Total liabilities and equity	**324,441**	**327,678**	**267,934**	**184,048**	**173,636**

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

EUR thousands	2012	2011	2010	2009	2008
EBITDA	37,885	34,564	44,312	32,460	29,590
Net Debt	73,103	41,911	42,079	86,259	95,941
EBITDA Margin,%	13.2%	12.4%	17.3%	16.2%	10.9%
Net Profit Margin,%	4.7%	5.3%	8.6%	4.1%	2.7%
ROE	7.6%	8.9%	17.9%	16.3%	25.3%
ROA	4.2%	4.5%	8.2%	4.4%	4.2%
Market Capitalization	110,837	106,250	360,656	-	-
Enterprise Value (EV)	190,324	154,117	408,866	-	-
EV / EBITDA	5.02	4.46	9.23	-	-
EV / SALES	0.66	0.55	1.58	-	-
Net Debt / Equity	0.41	0.25	0.34	1.72	3.30
Net Debt / EBITDA	1.93	1.21	0.95	2.66	3.24
Net Debt / Sales	0.25	0.15	0.16	0.43	0.35
Total Debt Ratio	0.45	0.49	0.54	0.73	0.83
Debt / Equity	0.82	0.98	1.18	2.67	4.96
Current Ratio	1.68	1.63	1.79	1.24	0.59
Quick Ratio	1.31	1.24	1.34	0.83	0.40
P/E	8.68	7.38	13.48	35.58	-
EPS	40.87	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, Employees,

2012 was a year of building a long term growth platform for the business of Milkiland. The two key strategic undertakings initiated by our company last year were acquisition of the first non-CIS asset – Polish-based Ostrowia, and commencement of large-scale dairy farming business in Ukraine. Both will have long term boost for Milkiland, in terms of bottom line growth, business stability, and margins.

Despite unexpected temporary interruptions in cheese exports to Russia, Milkiland managed to increase its sales revenue by 3% to historical record of EUR 287 million, and EBITDA was up 10% (EUR 38 million). Our diversified business model again proved its effectiveness; decrease in cheese segment revenue by 5% was compensated by advance in fresh dairy and ingredients, by 14% and 5%, respectively.

Acquisition of Ostrowia was a significant step in fulfilling our strategic task of building a sound growth platform. Ostrowia is the modern cheese making facility capable of producing wide range of products essential to Milkiland.Ostrowia will aim to address our core CIS markets from Poland, and thus Milkiland will have additional flexibility in cases of trade barrier complications that from time to time arise between Russian Federation and Ukraine. Also, this acquisition allowed Milkiland to establish its footprint in EU, the largest dairy market globally.

From the market perspective, 2012 was generally a favourable year for Milkiland. We noticed increase in consumer spending across major dairy segments in our core markets, as population's disposable incomes grew by 4.2% in Russia and 9.7% in Ukraine, followed with increase in retail turnover by 5.9% and 15.9%, respectively. We were happy to see that Milkiland's products were in strong demand, and our investments in brands were not in vain. Our key brands, Dobryana and Ostankinskoye, continued their development. Also, in 2012 Ostrowia brand was added to portfolio; we intend to use mainly for Polish market.

On the cost side, 2012 was an improvement over 2011, first of all due to partial restoration of government subsidies to dairy farmers in Ukraine that, coupled with some growth in raw milk production, resulted in lower milk prices by 13% in Ukraine and 4% in Russia. The other costs were also managed well. As a result of better inputs costs and increased efficiency, the company's gross margin improved from 24% to 27%, while EBITDA margin increased from 12% to 13%.

We understand that availability of quality and affordable milk is essential for Milkiland's success, and strive to have this under our control. Our strategic goal to secure significant share of in-house milk remains intact, and in 2012 the company's own milk production increased 1.7 times. However, the main effort we made was construction of modern 6,800 stalls dairy farm that will produce about 50 kt of milk annually when fully launched. In 2012 the respective investments amounted c. EUR 20 million and we expect the farm will be fully operational in the current year.

We would like to thank all Milkiland's managers and stuff for their continued hard work and dedication which led this year of progress at Milkiland. We appreciate that people are key to our business success, and 2012 was a year when many talented individuals joined the company.

Our outlook for 2013 is quite optimistic. We expect that dairy consumption growth will continue in our core markets, and Milkiland will be able to capture and expand its market share. We expect significant revenue increase in our Russian business following restoration of cheese exports and introduction of new fresh dairy product line developed by Ostankino. Ostrowia will also add up to 10% to Milkiland's revenue in 2013. As we continue development of Milkiland's dairy farming business, we expect some positive impact on margins already in 2013; however, the full scale effect is expected to start in 2014.

We strongly believe that our efforts and investments are helping to build and maintain respect and confidence with our customers. This is the essence for long-term and profitable growth of our business, resulting in benefits for our shareholders, partners, and employees.

Sincerely yours,

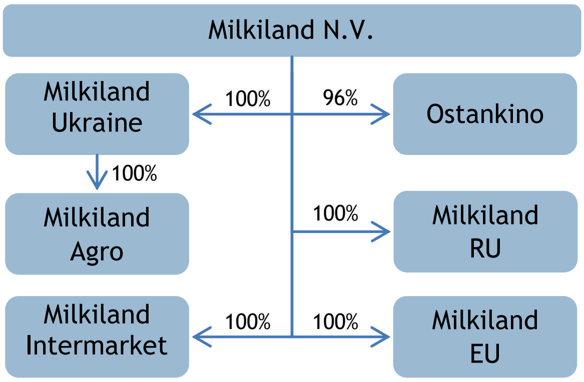
Oleg Rozhko, Chairman of the Board

Anatoliy Yurkevych, Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2012

The Group Overview

Milkiland (the Company, or the Group) is a diversified dairy producer with core operations in the CIS and EU. The Group's holding company Milkiland N.V. is incorporated in the Netherlands, while activities in the CIS and EU are conducted through its subsidiaries in Ukraine, Russia and Poland. The Group's aggregated chart is presented below.



The Group's business in Ukraine (Milkiland Ukraine) includes milk processing (10 dairy plants), dairy farming (Milkiland Agro), and extensive milk collection system throughout Ukraine. Milkiland Ukraine is the Company's major production division, collecting and processing about three quarters of the Group's milk, and producing a wide range of products that it sells both locally and in overseas markets.Milkiland Agro is farming subsidiary of Milkiland Ukraine operating over 10,000 cattle livestock, including about 3,000 milking cows. The total land area cultivated by Milkiland Agro is about 24,000 hectares.

The Group's Russian business consists of Ostankino Dairy Combine (Ostankino) and Milkiland RU. Ostankino is the Moscow-based producer of whole milk products ranking No. 3 on local Moscow market, the largest regional CIS dairy market. Milkiland RU is responsible for distribution of the Group's cheese products in Russia, and development of Milkiland's production base in Russia. In 2012 Milkiland RU has conducted acquisition of Rylsk Dairy Plant in Kursk region (deal closed in February 2013).

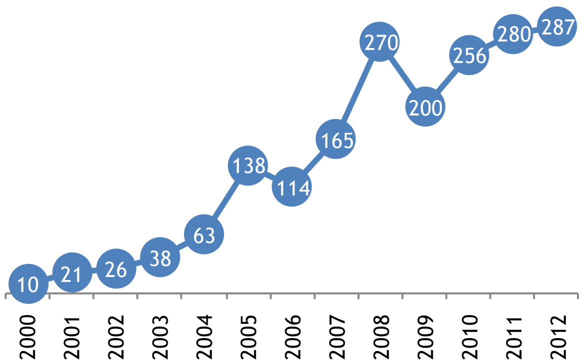
In 2012 the Group launched its EU business, having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. Ostrowia is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15 kt p.a.), curd and processed cheese and also yoghurts.

The Group's Milkiland Intermarket was established in 2012, for the purpose of marketing the Company's products globally. Intermarket's product line mainly consists of dry milk products, butter, and hard cheese.

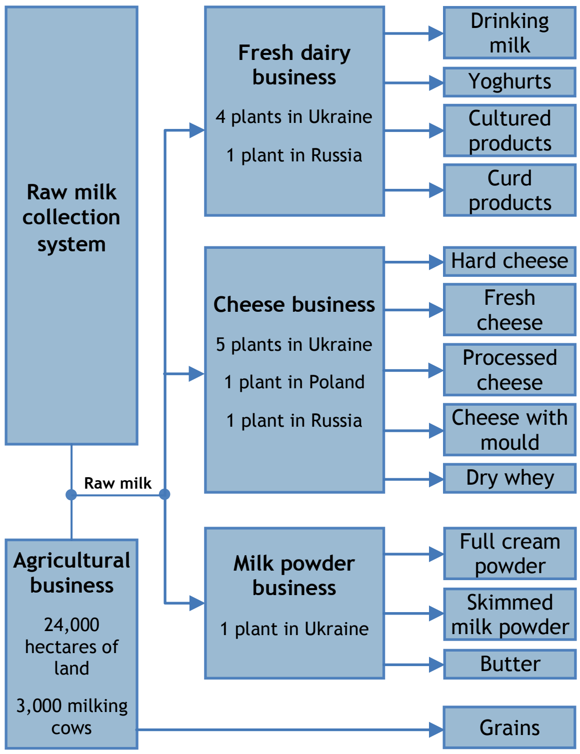
The Group's total annual milk processing capacity exceeds 1 million tons; product line consists of whole milk products, various types of cheese, butter, and dry milk products.

In 2012 Milkiland's consolidated revenues reached EUR 287 million, representing c.3% growth compared to2011 and over 29% compound annual growth rate since 2000.

Annual revenue, EUR million



Milkiland develops as universal milk processor with production assets diversified across CIS and EU, and with a significant level of vertical integration, to enable reliable access to raw milk - one of the core restraints for dairy producers in the CIS. Such model makes possible to offer a wide range of quality products to the Group's customers, while controlling costs and sustaining margins. Milkiland's business model is outlined in the diagram below:



Milkiland's milk procurement comprises its own dairy farming business (Milkiland Agro) and extensive raw milk collection system from third party farms and individual farmers. In 2012 Milkiland Agro increased its milk production by 1.7 times. In order to secure larger volumes of in-house milk, in 2012 the Group has commenced construction of the modern 6,800 stalls dairy farm scheduled for launch in 2013. Upon achievement of full capacity in 2014, such farm will supply 40-50 thousand tons of milk to Milkiland's processing plants.

The Group's milk collection system in Ukraine aims to collect raw milk from third party suppliers such as cooperatives and individual raw milk suppliers, providing about half of Milkiland's needs in Ukraine.

In order to secure milk supply in Ukraine, Milkiland also continued supporting of partner milk cooperatives providing over 20% of the Group's raw milk needs in Ukraine.

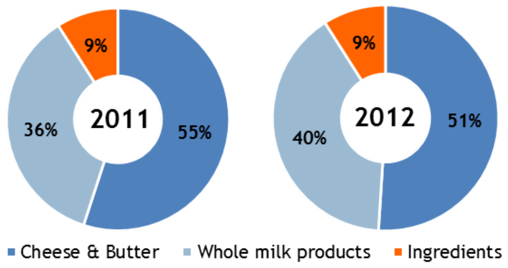
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines.

Whole milk dairy and cheese are Milkiland's core product segments providing together c.91% of the Group's revenues in 2012.

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

The Group's cheese business is comprised of five production units in Ukraine and Polish-based Ostrowia cheese plant acquired in 2012. Also, Milkiland in 2012 conducted acquisition of small cheese plant in Russia (Kursk region); the deal was closed in February 2013. Milkiland is one of the leading CIS players in this segment offering a wide variety of cheeses such as hard, fresh, curd 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 few local players in this attractive segment. The Group sells its cheese primarily in Ukraine, Russia and Kazakhstan, being one of the major CIS players.

Revenue breakdown by product in 2011-2012



Milkiland's 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. After integrating Ostrowia in 2012, Milkiland significantly improved its positions in dry milk products, since Ostrowia is equipped with state-of-the-art facilities for production of WPC-80 and permeate.

Sales of milk powder products are mostly done on B2B basis, with food-processing companies being the Group's major customers.B2B sales comprised around 9% in the total revenue in 2012.

Milkiland's consumer products are marketed mostly under two key brands Dobryana and Ostankinskoye. Dobryana is positioned as the Company's international brand actively deployed in Ukrainian and Russian markets. Ostankinskoye is a traditional brand for whole-milk products produced by Ostankino Diary Combine, well known by Moscow consumers.

Upon acquisition of Ostrowia cheese plant in 2012, Milkiland has acquired Ostrowia brand which is well known in Poland. Milkiland plans to use Ostrowia brand to market cheese produced by its Polish division both locally and for exports markets.

All Milkiland's brands are targeting a wide audience of families that are keen of healthy diet and natural dairy products. Most of the Group's products are medium priced and widely affordable.

Revenue breakdown by geography in 2012

In terms of geographical revenue breakdown, Russia is the largest market for Milkiland contributing over 64% to the Group's total consolidated revenue in 2012. In Russia, the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 32% of the Group's revenue and include all range of dairy products. Other countries accounted for less than 5% of sales in 2012.

Key Products, Production and Sales

According to UN Food and Agriculture Organization (FAO), global dairy market has one of the most upward growth potential of the total food market. The key growth drivers are demands from Asian countries and Russia. In 2012, global dairy production added 3%, a higher rate than the recent years' average. Most of the increase came from Asia, Oceania and South America, in particular China, India, New Zealand and Argentina. Asia accounted for the large part of this increase with India, the world's largest milk producer, increasing production by 5 million tons. Steady growth in consumer demand well compensated for this rise in output, thus stabilizing global dairy prices at high levels. As demand remained firm, the global trade in dairy products grew almost 5% in volume terms.

Milkiland defines its 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. Starting from2013, upon launching of Ostrowia operations, the Group will also be active in the Polish market.

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. In Russia, per capita consumption of dairy products reached 275kg in milk equivalent in 2012. In Ukraine, per capita consumption of dairy products was 155kg or less than half 1990 level. The Russian Ministry of Economic Development forecasts that dairy consumption will grow 30% by 2030. Russia's WTO accession will lead to lower tariffs and open the Russian market to foreign producers, mainly from CIS countries. At the same time, Russia has one of the highest milk prices globally, which make its market very promising for Ukrainian and Polish dairy producers.

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

The Group allocates its 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, permeate, etc. Also, this segment included agricultural products of Milkiland's farms sold to third parties.

Milkiland's core strategic product groups are whole milk products and cheese where the Group sees the most significant growth potential. Butter and milk powder are opportunistic products that are produced 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. 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.

From the market perspective year 2012 was rather favourable for whole milk product producers. Consumption demonstrated c.6% growth in Russia and c.3% in Ukraine in volume terms. Average prices for whole milk products were 2-8% higher than in 2011 in Russia and stable in Ukraine.

Raw milk prices in Ukraine were considerably lower (about 13%) after the Ukrainian Parliament partially restored subsidies for dairy farmers. This, together with the stable prices had led to better producer margins. In Russia, raw milk prices were 4% lower than in 2011. Increase in the raw milk production in both countries also contributed to improving margins.

Milkiland continued to implement the structural improvements in whole milk products portfolio in 2012 to increase the share of higher value-added products.

Whole milk dairy is one of the most competitive segments in the CIS, with a number of global players offering their best products. The Group also invests and develops its own brands. Milkiland's core international brand Dobryana as well as regional brand Ostankinskoye strengthened their positions in Russia and Ukraine on a backdrop of concentration of the WMP sales under these brands and re-designing of Dobryana brand image. A number of new SKUs were added to Milkiland's cornerstone category, thermostatic products. Thermostatic dairy was an undisputed success in the WMP segment. Sales in this category in 2012 grew by 18% in volume terms and by 24% in value terms. Sales in drinking yoghurt category rose by 50% in volume terms and 72% in value terms, respectively.

As a result, the Group's total revenues in the fresh dairy segment grew by c.14% and amounted to c. EUR 115 million in 2012. The segment's EBITDA increased by 67% compared to 2011 – from EUR 6.7 million to EUR 11.1 million, reflecting lower raw milk prices and increased sales of higher value-added products.

The share of fresh dairy in the Group's consolidated revenues stood at c.40% which is by 4 pp. more than in 2011.

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. 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 a top-10 player, particularly strong in the northern regions of Ukraine where its market share is over 25%.

Whole milk dairy segment remains Milkiland's strong strategic priority, as the Group sees high growth potential here. According to IKAR estimations, for the past four years fresh dairy has been the fastest growing dairy market segment in Russia. In 2012, consumption of whole milk products grew 5.9%. The main reason for such a growth is that high value-added dairy products are gaining popularity as people switch to more healthy diet. The consumption of high value-added fresh dairy products grew by 7.2% to 8.4 kg per capita. In Ukraine, whole milk dairy sales gained 3.3% in 2012, while yoghurts added 11.6% (Infoagro data), despite of the low consumer sentiment.

According to the Company's estimations, up to 40% of fresh dairy consumption in its core markets still falls to home-made products. Such informal consumption will diminish in favour of industrially processed dairy, thus being significant growth driver in the Group's markets.

The Group believes that it has good assets in right places both in Russia and Ukraine. 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, Lviv, Kharkiv and Kryvyi Rig.

Cheese and Butter Segment

Cheese is the second largest dairy market in the CIS after whole milk products. In the past three years, cheese consumption in Russia grew 4%. As much as 40% of the total cheese consumption is imported, Ukraine being one of the largest exporters. Trade restrictions imposed by Russia on Ukrainian cheese in early 2012 somewhat limited the Ukrainian exports in 2012. As a result, the total Russian cheese imports decreased by c. 7% to 202,000 tons. An increase in Russia's domestic production compensated for this decrease; however industry experts expect that cheese imports to Russia will grow further as consumption grows. In Ukraine, the temporary decrease in cheese exports led to a growing supply to the domestic market (13% y-o-y in volume terms). Such an increase in supply triggered a price drop. As a result, cheese producers could not fully benefit from the re-introduction of dairy farmers subsidy and lower raw milk prices.

According to industry experts, by 2020 the CIS cheese market is expected to grow by one third following improving consumer demand and changing eating habits. 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. Hard cheese is the main growth driver for the CIS cheese market, while the share of processed cheese stagnates in volume terms. New products, such as fresh cheese and mould cheese, were introduced to CIS markets fairly recently, and are the fastest growing categories, though their share in overall consumption is not yet significant.

Milkiland's long term view on cheese market in the CIS is bullish, as there is a significant growth potential seen. 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, the Group is positive that the growth will continue in line with expected increase in the real income of the population. The Company considers that new cheese categories will contribute significantly to the growth. Also, Milkilandanticipates strong demand for new types of hard cheese, as the level of sophistication of CIS consumers will advance.

As a result of restrictions imposed by Russian authorities on cheese exports from Ukraine, Milkiland's cheese & butter segment revenues decreased by c. 5% to EUR 145.3million. The segment's EBITDA stood at c. EUR 24.7 million, representing a 3% annual decrease. EBITDA margin grew from 16.6% in 2011 to 17.0% in 2012.

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

On the top of positive market growth prospects, the fragmented industry structure in Russia and Ukraine offers attractive consolidation opportunities. In order to address the risks of further possible Russia's import restrictions for Ukrainian cheese, Milkiland acquired Ostrowia cheese making plant in the Republic of Poland in July 2012 and Syrodel cheese making facility in Kursk region, Russian Federation in February 2013.

With the acquisition of Ostrowia cheese making facility, the Group got an ability to address its traditional CIS markets from Poland. Also, this acquisition allowed to Milkiland to establish its footprint in EU, the largest dairy market globally.

The Polish cheese market has been steadily growing in recent years. In 2012, it grew by 5% in volume terms and more than 8% in value terms to over EUR 1 billion (PLN 4.9 billion), which mainly caused by growth in the retail price of rennet cheeses. To a lesser extent, the increase in the value of this market was driven by consumption of imported cheeses and more expensive cheese types, including white cheese.

In Russia, Milkiland will use newly acquired Syrodel to produce hard and specialty cheeses for Russian market and serve as supplier of butter, cream and other products for the Group's Ostankino Dairy Combine based in Moscow.

For more information on acquisitions, refer to section *Material Factors and Events*.

Ingredients Segment

The Group's strategy of diversification and close integration with raw milk suppliers presumes 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.

The USDA Foreign Agricultural Service (FAS) reports that 2012 was an exceptional year for the global milk production on the back of unusually good weather and pastures in Oceania, and increasing production in the US and the EU. For two consecutive years, global supply was very strong thus putting a downward pressure on prices. However, this pressure was only moderate due to fast developing global demand.

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. According to FAO estimates, world trade in dairy products grew by 4.8% to 52.8 million tons in 2012. Asia accounted for more than a half of the total dairy imports.

Firm international demand supported dairy prices in 2012. In the first half of the year, excessive supply put some pressure on the key tradable dairy products. The FAO international dairy products price index (2002–2004=100) stabilized at 173 during June and July but had risen to 194 by October. Prices strengthened for all the products that constitute the index, especially skimmed milk powder (SMP) which registered an increase of USD562 per tonne, or 20%, after its mid-year low. In the same period, whole milk powder (WMP) prices also rose, by USD 425 per tonne or 15%.

In 2012 the Group capitalised on these trends and increased its sales of ingredients in value terms. This growth was achieved mainly due to better pricing of skimmed milk powder.

As the result, Milkiland's revenues in this segment rose by 5% and amounted to EUR 27.1 million. Higher sales of commodity agriculture products produced by the Group's farms and not used for Milkiland's internal purposes also supported this growth. Ingredients sales contributed EUR 3.7 million of EBITDA, representing 13.5% EBITDA margin.

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2012 and 2011 in thousands Euro.

Selected financial data

	2012	2011
I. Revenues	287,013	279,758
II. Operating profit	22,038	21,035
III. Profit (loss) before tax	15,369	16,088
IV. Net profit (loss)	13,561	14,797
V. Cash flows provided by (used in) operating activities	17,921	9,042
VI. Cash flows used in investing activities	(49,551)	(9,227)
VII. Cash flows (used in) provided by financing activities	2,284	14,175
VIII. Total net cash flow	(29,346)	13,990
IX. Total assets	324,441	327,678
X. Current liabilities	67,750	87,952
XI. Non-current liabilities	78,006	73,911
XII. Share capital	3,125	3,125
XIII. Total equity	178,685	165,815
XIV. Weighted average number of shares	31,250,000	31,250,000
XV. Profit (loss) per ordinary share, EUR cents	40.87	46.05

Income Statement

Summary statement of comprehensive income, '000 EUR

	2012	2011
Revenue	287,013	279,758
Change in fair value of biological assets	934	1,859
Cost of sales	(209,737)	(214,101)
Gross profit	78,210	67,516
Operating income (expense), net	(56,172)	(46,481)
Operating profit	22,038	21,035
Net finance expense and other non-operating income (expense)	(6,669)	(4,947)
Profit (loss) before tax	15,369	16,088
Income tax (expense) benefit	(1,808)	(1,291)
Net profit (loss)	**13,561**	**14,797**
Other comprehensive income (loss)	(524)	27,799
Total comprehensive income	**13,037**	**42,596**
Net profit (loss) attributable to equity holders of the parent company	**12,771**	**14,391**
Weighted average number of shares (in millions), as of December 31	31.25	31.25
Earnings per share, basic and diluted (EUR cents)	**40.87**	**46.05**

Revenue

In 2012, the Group's revenue grew c.3% to EUR 287.0 million, owing mainly to better sales volumes and price developments in the WMP segment.

The table below sets forth an overview of the revenue generated by the Group in 2011 and 2012 by product group.

Breakdown of the Group's consolidated revenue by product in 2012-2011

	2012		2011		2012 vs. 2011	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	145,274	50.6%	153,197	54.8%	-7,923	-5.2%
Whole milk products	114,667	40.0%	100,777	36.0%	13,890	13.8%
Ingredients and other	27,072	9.4%	25,784	9.2%	1,288	5.0%
Total	**287,013**	**100.0%**	**279,758**	**100.0%**	**7,255**	**2.6%**

In terms of revenue, sales of cheese and butter decreased by5% y-o-y to EUR 145.3 million and represented 51% of the total consolidated revenue in 2012 vs. 55% in 2011. This decrease in revenue from cheese sales was primarily triggered by restrictions introduced by Russian authorities on Ukrainian cheese exports in the first half of the year. This ban resulted in a 14% drop in cheese sales in volume terms. A 10% increase in effective average price for cheese partially compensated for this drop. Such an increase in prices was due to the further improvements in brand portfolio. A number of new products were introduced in the cheese category under Dobryana brand, while production of less profitable processed cheese categories was discontinued.

For more information on cheese and butter production and sales, refer section *Key Products, Production and Sales*.

Sales of whole milk products represented approx. 40% of the total consolidated revenue in 2012 vs. approx. 36% in 2011. Revenue generated by sales of whole milk products grew 14% y-o-y to EUR 114.7 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 dropped2% to EUR 210 million. The main driver for this decrease was a15% drop in raw and other materials costs (from EUR 164.4 million to EUR 139.7 million), mainly due to lower raw milk prices.

Year 2012 was marked by positive trends in raw milk production in Ukraine. After re-introduction of government subsidies for dairy farmers in Ukraine the average effective raw milk price dropped 13% y-o-y. According to official statistics, first time in the past decade, the total Ukrainian raw milk production rose by 3% y-o-y. Milk production at farms grew by 13%, while household production was stable. The increase in large-scale milk production rather than households contributes to better availability of high quality milk for processing. In Russia, milk production continued stagnating (+1% y-o-y) with household output 2% lower than in 2011 and farms output higher by 2.5%.

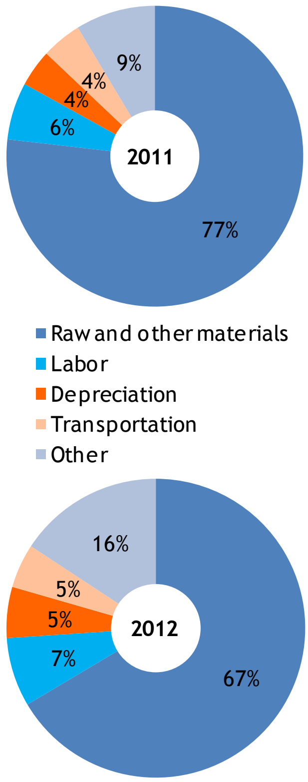
Recent accession of Russia to the WTO also puts additional downward pressure on farm-gate prices. Russia is among the countries with the highest milk prices in Europe. Lowering of import tariffs for skimmed milk powder from 25% to 15% will lead to further downward pressure on raw milk price as substitutes get cheaper.

In 2012 Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production.

Sixteen partner milk cooperatives supported by the Group grew by 5% in the number of members and by 16% in the cow headcount. The share of cooperatives' milk in the total volume of raw milk collected by the Group in Ukraine exceeded20% in 2012, well above the target set for the year.

In 2012, Milkiland's in-house milk production grew 1.7 times y-o-y and comprised c. 4% of the total milk intake in Ukraine. In order to increase own production, in 2012 the Group has commenced construction of the modern 6,800 stalls milking farm scheduled for launch in 2013. This should further improve Milkiland's raw materials costs.

The Group's cost of sales structure in 2011-2012



In 2012, labour costs grew 17% to EUR 15.6 million as a result of salaries inflations and new subsidiaries integrated. Social insurance contributions increased accordingly.Depreciation costs mainly increased on the back of revaluation of PPE in late 2011, as well as new acquisitions.Transportation and gas costs grew as a response to growing sale volumes and rising prices for oil and gas. More than doubled other costs represent the decrease in the inventories of finished goods and work in progress (resulting in +EUR 6.2 million in the cost of sales) as well as an increase in other costs.

Breakdown of the Group's cost of sales in 2012-2011, '000 EUR

	2012		2011	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	139,687	48.7%	164,432	58.8%
Wages and salaries	15,604	5.4%	13,283	4.7%
Depreciation	11,523	4.0%	8,559	3.1%
Transportation costs	9,997	3.5%	9,326	3.3%
Gas	9,271	3.2%	7,261	2.6%
Other	23,655	8.2%	11,240	4.0%
Total	**209,737**	**73.1%**	**214,101**	**76.5%**

Gross profit

As a result of decreasing raw milk costs, Milkiland's gross profit grew by16% y-o-y to EUR 78.2 million. Gross profit margin improved from 24% in 2011 to 27% in 2012.

Selling and distribution expense

The Group's selling and distribution expenses increased by 21% from EUR 21.6 million in 2011 to EUR 26.2 million in 2012 and represented 9.1% in the consolidated revenue in 2012 vs. 7.7% in 2011. Transportation costs, the major component (43% of the S&D expense in 2012), grew by 12% y-o-y from EUR 10.0 million to EUR 11.2 million, resulting from increased sale volumes.

An increase in labour costs due to a rise in sales and a consecutive rise in payments to sales personnel, as well as almost doubled marketing and advertising costs also contributed to an increase in the selling and distribution expense.

Administrative expense

The Group's administrative expenses grew from EUR 24.0 million in 2011to EUR 27.7 million in 2012, representing9.6% in the consolidated revenue in 2012 vs. 8.6% in 2011. A three-fold increase in bank charges associated with optimization of the Group's loan portfolio in 2012 mainly contributed to this growth. For more information on loans and borrowings, refer to *Financial Position* and *Material Factors and Events* sections.

Other expenses, net

Other expenses grew 15% to EUR 3.6 million due to anincrease in write off and change in provision for VAT resulted by increased VAT reimbursed and to be reimbursed by the Ukrainian Government. Acquisition-related costs of EUR 1.3 million also contributed to this growth. The increase in other costs was partially compensated by a growth in government grants recognized as income due to increased agricultural operations and re-introduction of government subsidies to dairy farmers.

Operating profit and EBITDA

All the above factors contributed to a 5% rise in the Group's operating profit to EUR 22.0 million and to a 10% increase in the consolidated EBITDA to EUR 37.9 million. EBITDA margin improved from 12.4% to 13.2% in 2012.

Finance expense

The Group's finance expenses increased by 22% to EUR 9.5 million in 2012 compared to EUR 7.8 million in 2011. The main reason for this increase is that in 2011 the Group's subsidiary in Russia, Ostankino Dairy Combine, received a government grant from the City of Moscow to compensate interest expense on bank loansin amount EUR 1.9 million. In 2012, this grant was no longer available. Finance income remained stable at EUR 2.3 million. As a result, the net finance expense and other non-operating expense increased by 35% y-o-y from EUR 4.9 million to EUR 6.7 million.

Profit before tax and Profit for the year

As a result of increased finance expense, the Group's profit before tax decreased by 4% y-o-y to EUR 15.4 million. The Group's net profit decreased by 8% to EUR 13.6 million. The net profit margin constituted 4.7% vs. 5.3% in 2011.

Financial Position

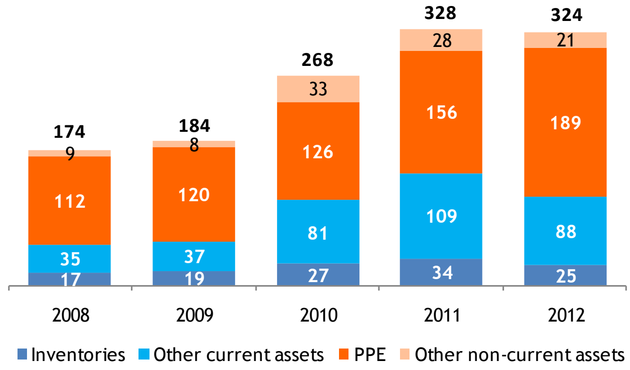
Summary balance sheet as at December 31, '000 EUR

	2012	2011
Cash and cash equivalents	23,850	53,410
Trade and other receivables	48,236	28,994
Inventories	25,487	34,471
Current biological assets	5,420	3,422
Current income tax assets	204	498
Other taxes receivable	10,750	22,607
Total current assets	***113,947***	***143,402***
Goodwill	3,485	3,092
PPE	189,129	156,121
Non-current biological assets	3,296	2,583
Other intangible assets	3,824	1,419
Deferred income tax assets	9,754	21,061
Other non-current assets	1,006	-
Total non-current assets	***210,494***	***184,276***
Total assets	**324,441**	**327,678**
Trade and other payables	15,120	18,430
Current income tax liabilities	534	508
Other taxes payable	1,570	1,861
Short-term loans and borrowings	50,526	67,153
Total current liabilities	***67,750***	***87,952***
Long-term loans and borrowings	46,427	28,168
Deferred income tax liability	30,715	43,874
Other non-current liabilities	864	1,869
Total non-current liabilities	***78,006***	***73,911***
Total liabilities	**145,756**	**161,863**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	53,228	58,320
Currency translation reserve	(7,441)	(8,134)
Retained earnings	74,702	57,861
Total equity attributable to equity holders of the parent company	***172,301***	***159,859***
Non-controlling interests	6,384	5,956
Total equity	**178,685**	**165,815**
Total liabilities and equity	**324,441**	**327,678**

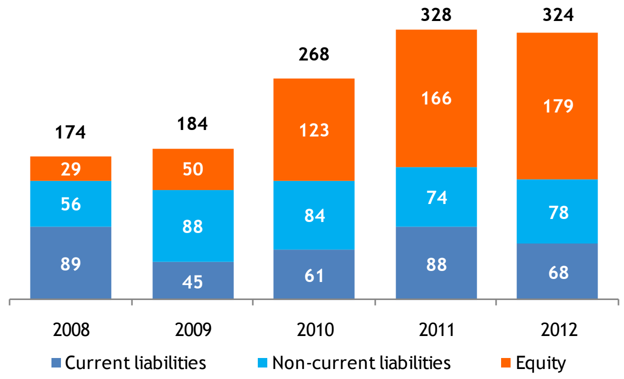
Capital structure and solvency analysis information

	2012	2011
Total debt ratio	0.45	0.49
Debt to equity ratio	0.82	0.98
Net debt/EBITDA	1.93	1.21
Net debt/sales	0.25	0.15

Assets structure in 2008-2012, ‘000 EUR



Equity and liabilities of the Group in 2008-2012, ‘000 EUR



Assets

The Group’s total assets decreased by1% from EUR 327.7 million as of December 31, 2011, to EUR 324.4 million as of December 31, 2012.

Cash and cash equivalents amounted for EUR 53.4 million as of December 31, 2011, mainly due proceeds from the first tranche of syndicated loan arranged by the Company on December 16, 2011. During 2012 cash and cash equivalents decreased to EUR 23.9 million (55%), reflecting the Company’s activity in acquiring assets and corporate rights.

The Group’s inventories in 2012 decreased by 26%,as a result of seasonal sales growth in Q4, coupled with a slowdown in dairy production, as the Group decreased milk collection due to higher than expected raw milk prices in the year end. Accounts receivable increased by 66%, to EUR 36.9 million, over the year, mainly reflecting extended payment terms to a number of customers, in order to promote sales in WMP and Cheese segments. Advances issued by Milkiland’s agricultural units for seeds, seed protection, fertilizes etc., also contributed to this growth. Other taxes receivable comprise mainly export VAT receivable from the Ukrainian government. In 2012, VAT receivable halved as the Ukrainian government reimbursed over EUR 11.8 million to the Group.

Non-current assets grew by 14% to EUR 210.5 million mainly due to additions of PPE in amount EUR 33.5 million (22% increase), including for the purposes of plants modernization and development of Milkiland Agro new dairy farms.

Current assets represented 35% of the total assets, non-current assets - 65% (44% and 56% respectively as of December 31, 2011).

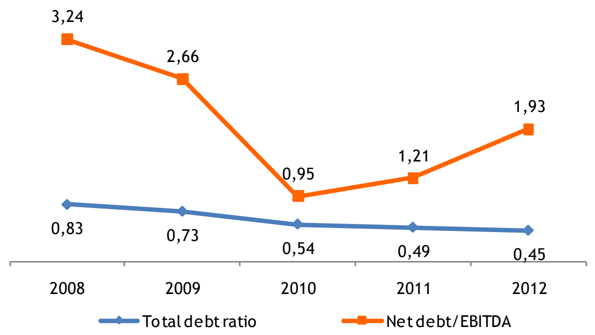
Liabilities and equity

The Group’s total liabilities decreased by10% over 2012, from EUR 161.9 million to EUR 145.8 million as of December 31, 2012. Current liabilities dropped23% to EUR 67.8 million, while non-current liabilities increased by 6% to EUR 78.0 million. Such a change in the liabilities breakdown was due to repayment of short-term loans, which were substituted with long-term borrowings in 2012.The average interest rate for short-term loans fell from 10.74% to 10.55%, for long-term loans from 13.05% to 10.83%.

Net debt of the Group stood at EUR 72.7 million as of December 31, 2012. Total Debt Ratio constituted 0.45 vs. 0.49 in 2011. Net Debt/EBITDA ratio somewhat increased from 1.21 to 1.93 due to higher net debt in 2012, however stayed at a healthy level.

For more information on loans and borrowings contracted by the Group, refer to *Note 16 to the Consolidated Financial Statements* and section *Material Factors and Events*.

Debt ratios of the Group in 2008-2012



A 29% increase in the retained earnings contributed to c.8% rise in the Group's total equity.

Current liabilities represented 21% of the total equity and liabilities, non-current liabilities 24%, and equity 55% as of December 31, 2012 (27%, 23%, and 50% respectively in 2011).

A decrease in the Group's net profit and rising equity led to a decline in its ROE from 9% to 8%. At the same time, ROA decreased from 5% to 4%.

A decrease in the Group's inventories and cash and cash equivalents led to a lower the working capital, which decreased17% from EUR 55.5 million to EUR 46.2 million. At the same time, the Group's cash ratio fell from 0.61 to 0.35 in 2012.

A decrease in the current liabilities due to repayment of short-term loans led to improvements in the current and quick ratios to 1.7 and 1.3 respectively.

Over 2012 the Group's average operating cycle increased to 58 days from 52 days, due to higher value of accounts receivable resulting from longer collection periods due to granting delays in payments to key customers.

Balance sheet items and liquidity analysis

Ratios	Definitions	2012	2011
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	38.12	39.70
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	49.11	29.30
Average payment period, days	Average trade payables to cost of sales times number of days in the period	29.32	16.80
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	57.91	52.20
Working capital, '000 EUR	Current assets less current liabilities	46,197	55,450
Current ratio	Current assets to current liabilities	1.68	1.63
Quick ratio	Current assets less inventories to current liabilities	1.31	1.24
Cash ratio	Cash and cash equivalents to current liabilities	0.35	0.61
ROE, %		7.6%	8.9%
ROA, %		4.2%	4.5%

Summary cash flow statement

	2012	2011
Cash flow from operating activities:		
Operating cash flows before working capital changes	43,280	32,755
Changes in assets and liabilities, net	(13,850)	(15,904)
Cash provided by (used in) operations:	29,430	16,851
Net cash from operating activity	**17,921**	**9,042**
Investing activities:		
Proceeds from sale of property, plant and equipment	174	918
Acquisition of property, plant and equipment	(34,548)	(5,552)
Acquisition of subsidiaries, net of cash acquired	(14,146)	(4,593)
Increase of other non-current assets	(1,031)	-
Net cash from investment activity	**(49,551)**	**(9,227)**
Financing activities:		
Acquisition of associates, subsidiaries and non-controlling interest, net of cash acquired	(165)	(712)
Commission paid	(2,202)	-
IPO costs paid	-	(782)
Proceeds from borrowings	91,676	58,712
Repayment of borrowings	(87,025)	(43,043)
Net cash from financial activity	**2,284**	**14,175**
Effect of exchange rate changes on cash and cash equivalents	(214)	1,663
Net increase in cash	**(29,346)**	**13,990**
Cash at beginning of the period	53,410	37,757
Cash at the end of the period	**23,850**	**53,410**

Net cash provided by operating activity doubled to EUR 18 million on the back of an increased profit from operations as a result of lower cost of sales. Active development of the in-house milk production through acquisitions and purchase of production equipment, as well as acquisition of a cheese making facility in Poland led to a considerable increase in the cash outflow from investing activities.

Net cash at the end of the period decreased 55% to EUR 23.9 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.

Key Investments in 2012 and the Sources of their Financing

In 2012, the Group's key investments were addressed to development of Milkiland Agro, mainly construction of modern 6,800 stalls dairy farm (c. EUR 20 million) and acquisition of the new subsidiaries, mainly Ostrowia cheese plant in Poland (c. EUR 12 million). The Company also invested into modernization of its processing plants.

The following table represents the Group's key investments in 2008 through 2012 by type.

Key investments in 2008 through 2012, thousands of Euros

	2012	2011	2010	2009	2008
Property, plant and equipment	34,548	5,552	6,327	2,190	5,835
Acquisition of associates and subsidiaries	14,311	5,305	7,540	-	27,048
Total investments	**48,859**	**10,857**	**13,867**	**2,190**	**32,883**

Last year's investments were financed mainly from operational cash flows and USD 100 million syndicated loan facility from UniCredit International and Raiffeisen Bank International Group obtained in December 2011 and during 2012. For more details on the Company's acquisitions in 2012, refer to section *Material Factors and Events*.

Investment Plans for 2013 and the Sources of their Financing

The Group's investment program for 2013 is planned in the range of EUR 15-20 million, and will focus on strategic initiatives started in 2012. Namely, Milkiland will further invest in reconstruction of Ostrowia in order to make the plant fully operational and complying with requirements of EU, Russian and Ukrainian veterinary authorities.

Also, in 2013 the Group will finish construction of its modern 6,800 stalls dairy farm. For more information refer to sections *Fulfilment of Strategy in 2012* and *Strategic Outlook for 2013*.

Additionally, Milkiland will continue modernization of Ostankino, aiming at increase in production efficiency, implementation of new packaging, and introduction of new dairy products.

In 2013 the Group intends to will finance its investment program mainly from its operational cash flows with partial debt financing.

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, 2012, 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, 2012

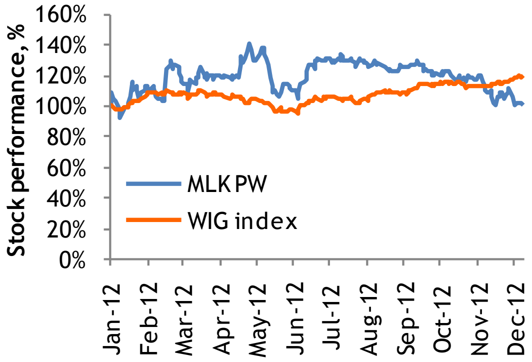
Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,750,175	72.8%	22,750,175	72.8%
Other shareholders	8,499,825	27.2%	8,499,825	27.2%
TOTAL	**31,250,000**	**100.0%**	**31,250,000**	**100.0%**

Share Price Performance

In 2012, Milkiland share price was stable despite several adverse factors putting downward pressure on quotes. 2012 marked a year of quite pessimistic international sentiment about Ukraine, resulting from poor macroeconomic development, threat of devaluation, and unstable political environment. The Group still has major part of its business in Ukraine, hence overall scepticism had an impact on Milkiland's shares. The Company believes that upon its international development the role of country risks will diminish.

Another significant factor influencing the shares in the first half of 2012 was the temporary restriction imposed by Russian authorities on Ukrainian cheese exports. Positive news on re-opening of the Russian market and Milkiland's acquisition of a Polish subsidiary added some investor confidence in late spring and summer but were not enough to overcome the overall market pessimism. As a result, on December 31, 2012, Milkiland was trading with Price/Earnings'12 and EV/EBITDA'12 of 8.7x and 4.9x respectively.

Share price performance of Milkiland N.V.



Source: Bloomberg

Milkiland N.V. significant stock quotation data, 2012-2011

	2012	2011
Opening price (PLN)	14.42	44.9
Highest trading price (PLN)	21.24	47.5
Lowest trading price (PLN)	13.03	10.4
Closing price (PLN)	14.50	14.00
Closing price (EUR)	3.55	3.40
Stock performance (absolute)	0.55%	-68.82%
Stock performance (relative to WIG)	-21.50%	-47.70%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	40.87	46.05
Price / earnings (P/E) as of December 31	8.7x	7.4x

Source: Bloomberg, management estimates

	2012	2011
Market capitalization as of 31 December (PLN million)	453.1	437.5
Market capitalization as of 31 December (EUR million)	110.8	106.2
Net debt (EUR million)	73.1	41.9
EV (EUR million) as of December 31	183.9	154.1
EV / EBITDA as of December 31	4.9x	4.5x
Free float (PLN million)	101.5	98.0
Free float (EUR million)	24.8	23.8
Average daily turnover (PLN thousand)	322.9	292.8
Average daily turnover (EUR thousand)	78.99	71.1

Management and Personnel

Composition of the Company's Board

As of December 31, 2012, the composition of the Board of Directors of Milkiland N.V. was as follows:

- Oleg Rozhko, (Non-Executive Director, Chairman of the Board of Directors);
- Anatoliy Yurkevych (Executive Director, Chief Executive Officer, member of the Audit Committee);
- Olga Yurkevich (Executive Director, Chief Operation Officer);
- Frederick Aherne (Non-Executive Director);
- Vyacheslav Rekov (Non-Executive director, member of the Audit Committee);
- 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, except of Mr. Oleg Rozhko, who was appointed Chairman of the Board of Directors on June 22, 2012.

Mr. P. Yokhym, who served at the position of Executive Director since May 9, 2008, has resigned on June 22, 2012, due to end of tenure.

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 72.8% 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, 2012, Milkiland employed 6,920 people. In the last year Milkiland established 100% subsidiaries Milkiland RU, Milkiland EU and Milkiland Intermarket, in order to control the Group's assets and develop the business in respective geographies. In total, 17 managers were employed by Milkiland RU and Milkiland EU.

At the same time, 164 persons found an occupation in the head office of Milkiland Ukraine in Kyiv. As Milkiland's production activities are arranged through production subsidiaries (cheese and whole-milk products plants), the majority of the Company's personnel is based in Ukrainian regional production units (5,862 people, including 1118 people in Milkiland Agro and its subsidiaries). Moscow-based Ostankino dairy combine employed 852 people.

The key companies within the Group, first of all the holding company Milkiland N.V. and its subsidiaries such as Ostankino, Milkiland RU, and Milkiland EU, have their own HR departments and are responsible for hiring and dismissing their personnel. Candidates for top-managerial and other key positions for all companies of the Group are being selected by the HR Department of Milkiland N.V. only.

Candidates' selection is conducted through the formal procedure ensuring sufficient level of required skills and compliance to the Group's corporate culture.

Staff structure comprises about 3% of top managers, 7% other managerial stuff, and about 17% is service staff. The remaining 73% is mainly work force.

Milkiland provides equal employment and personnel development opportunities to professionals in Ukraine, Russia and Poland regardless of their gender, religion, nationality or political preferences.

Training and Professional Development

The Group strongly believes that high level of competency of its employees is a key factor of efficiency and market success. In 2012, the internal training programs were developed for the key jobs. 1,362 employees or approx. 20% of the Group's employees were trained in2012. 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.

The Group was also supported the programs of professional work practice for the students of higher schools, involved at the studying of the young specialists for the dairy industry. In particular, in 2012 Ostankino welcomed 64 students of Moscow State University of food processing industry, Russian University named after Timiryazev with a mechanics and technologist specialization, 3 out of them signed contracts and were employed by the Combine after graduating from universities.

Corporate Social Responsibility

The Group being one of the leading dairy producers, measures success not only in terms of financial criteria but also in building customer safety and satisfaction, employee engagement, maintaining strong governance practices and supporting the communities we serve.

The Company is not only focused on environmental issues by implementing state-of-the-art technologies and making the chain and the production process more sustainable, but also undertakes a responsibility to support the local communities where the Group operates by developing social infrastructure and investing in creation other social values. In 2012, Milkiland continued supporting of local communities in areas where production assets are located. Primarily, this is day-to-day aid such as repairs of schools and kindergartens, purchasing of the gifts for children, charity payments to local NGO's.

Also, the Group's charity program of 2012 addressed the most vulnerable people such as orphans and children with special needs.

In 2012, the Group also contributed to the rural development by promoting milk cooperatives. These entities 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. For more information on dairy cooperatives, refer to section *The Group Overview*.

In order to promote healthy diet in Ukraine, Milkiland supported the Ukrainian initiative *I Love Milk* started in May 2012 by the Ukrainian Association of Dairy Producers. As a partner of this initiative, Milkiland welcomed children from all over Ukraine at its production facilities as part of the social project *Healthy Children, Healthy Nation*. During these site visits, children see the farm-to-table way of dairy products and are told how important milk is for their health. School milk campaign *Milk for Kids* has also begun as part of *I Love Milk* initiative in some regions of Ukraine including those where Milkiland production facilities are situated.

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.

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.

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 2012 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.

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.

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

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

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

As an outcome of the export ban, Milkiland's growth plans in cheese&butter segment were significantly undermined, first of all in volume terms. After the lift of ban Milkiland has managed to recover significant part of its exports, although some implications of the Russian ban continued even after it was lifted.

Acquisition of subsidiaries

Acquisition of Mazowiecka Spółdzielnia Mleczarska Ostrowia

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

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

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

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

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

Milkiland started the modernization of Ostrowia in November 2012 in order to meet the requirements of Ukrainian and Russian veterinary authorities. After re-launching of hard cheese production planned for Q2 2013, the Group expects to start exports to Ukraine and Russia in 2013, after respective permissions are in place.

Acquisition of agricultural subsidiaries

In 2012, the Group acquired100% shares in agricultural companies PAE Dovzhenka and LLC Feskivske, aiming to develop the Group's milk supply chain. After these acquisitions the Group's land bank increased to c. 24 thousand hectares, milking cows headcount to about 3,000 heads.

Acquisition of additional shares in Ostankino Dairy Combine

On July 31, 2012, the Company has published a voluntary buyout offer on the entire share capital of Ostankino Dairy Combine. As a result of the said offer the Company has increased the stake in the share capital of Ostankino Dairy Combine by 0.58%.

As of 31 December 2012, Milkiland owned 2,607,235 shares in Ostankino Dairy Combine representing 95.85% of share capital.

Financing arrangements

Sberbank facilities

- On 30 January 2012 Ostankino and Joint Stock Commercial Bank Sberbank of the Russian Federation entered into the agreement on the opening of a credit line with maximum limit of RUR 145 million (EUR 3.67 million) maturing on 29 January 2013. The loan was secured by a pledge of equipment.

Bank of Moscow facilities

- On 30 May 2012 Ostankino and Bank of Moscow entered into the loan agreement on the opening of credit line with maximum limit of RUB 250 million (EUR 6.3 million) maturing 30 May 2015. The loan is secured by a mortgage on a real estate.
- On 22 March 2012 Ostankino and Bank of Moscow entered into the loan agreement with the indication of the amount of credit line therein up to the limit of RUR 150 million (EUR 3.8 million). The maturity date was 21 March 2013. The loan was not secured.

Moscow Industrial Bank facilities

- On 4 April 2012 Ostankino and Joint Stock Moscow Industrial Bank entered into a loan agreement with the indication of the amount of credit line therein up to the limit of RUR 120 million (EUR 3 million). The maturity date was 2 April 2013. The loan was secured by a mortgage of real estate.
- On 25 April 2012 Ostankino and Joint Stock Moscow Industrial Bank entered into a loan agreement on the opening of credit line with maximum limit of RUB 140 million (EUR 3.5 million). The maturity date was 23 April 2013. The loan was secured by a mortgage on a real estate.

VTB facilities

- On 6 August 2012 Ostankino and Joint Stock VTB Bank entered into the three years loan agreement with the indication of the amount

of credit line therein up to the limit of RUR 200 million (EUR 5.1 million). The maturity date is 17 May 2015. The loan is secured by a mortgage on a real estate.
- On 6 August 2012 Ostankino and Joint Stock VTB Bank entered into the three years loan agreement with the indication of the amount of credit line therein up to the limit of RUR 100 million (EUR 2.5 million). The maturity date is 28 October 2015. The loan is secured by a mortgage on a real estate.

Credit Europe Bank facilities

- On 7 June 2012 Ostankino and Closed Joint Stock Credit Europe Bank entered into a loan agreement with the indication of the amount of credit line therein up to the limit of RUR 120 million (EUR 3 million). The maturity date was 6 November 2012. The loan was secured by a pledge of the goods.

Ukrgasbank facilities

- On 26 June 2012 DE “Milkiland Ukraine” and Public Joint Stock Commercial Bank “Ukrgasbank” entered into Overdraft agreement pursuant to which the overdraft financing has been granted with a maximum limit of UAH 20 million (EUR 1.9 million) with maturity date of 25 June 2013.The loan was secured by the surety of LLC Mirgorodsky Cheese Plant.

Acquisition of a significant block of shares in Milkiland N.V.

As of April 23, 2012, ING Otwarty Fundusz Emerytalny (the Fund) has consolidated 1,720,687 shares of Milkiland N.V., representing 5.51% of the Company’s ordinary shares. The Fund’s previous stated shareholding in Milkiland N.V. was 4.76% (1,486,339 shares).

Changes to the Board of Directors

In 2012, the Milkiland’s 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*.

Appointment of the CEO of Milkiland EU

On 21 December, 2011, Mr. Robert Grzegorz Mrozinski was appointed at the position of the president of the management Board (CEO) of Milkiland EU sp. z. o. o., a subsidiary of the Company which controls the Milkiland Group assets in Poland.

Robert Mrozinski has a broad top-manager experience of running different businesses in Poland and Eastern Europe. In particular, he held the positions of CEO in Fornetti Polska (2009-2012) and Managing Director of Mueller Polska (2008-2009), where he had a full P&L responsibility. Having a seat of the Management Director of Curver Poland (2005-2008), he also supervised the activities of this company in Russia, Ukraine, other CIS countries, and Baltic States, and managed to bring the company to the leading market positions in these countries. He graduated from University of Gdansk and completed an International Executive Programme in INSEAD business school in France.

Material factors and events after the reporting date

Acquisition of production assets of JSC “Syrodel”

On February 15, 2013, LLC “Kursk Moloko”, a 100% Russian subsidiary of Milkiland Group, has acquired production assets of JSC Syrodel in Rylsk city of Kursk region (Russian Federation). The acquisition price was EUR 1.5 million.

Initial investments and repairs are estimated at EUR 1 million.

The plant is designed to produce cheese (up to 3.5 kt p.a.), whole milk products and butter. Currently, it operates at about 10% of its capacity. The products of Syrodel are mainly sold in Kursk, Voronezh and Lipetsk regions of Russia.

Strategically, Milkiland will use Syrodel to produce hard and specialty cheeses for Russian market and serve as supplier of butter, cream and other products for the Group’s Ostankino Dairy Combine based in Moscow.

During 2013 Milkiland intends to increase capacity utilization of Syrodel, focusing on cheese and whole milk products. In 2014-15 Milkiland will consider modernization of the plant, mainly for the purpose to install new packaging lines and increase in production capacity.

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

Acquisition of shares in the Company by a person required to notify

Mr. Anatoliy Yurkevych, a member of the Company’s Board of Directors, has informed the Company that the entity closely associated with him, i.e., 1, Inc. Cooperatief U.A., with its registered office in Amsterdam, the Netherlands, purchased 223,413 of Milkiland’s shares on Warsaw Stock Exchange (about 0.71% of the Company’s share capital).The transactions were made on during February 20-28, 2013, average share price was PLN 15.35.

Fulfilment of Strategy in 2012 and Outlook for 2013

Strategic priorities

Milkiland's strategic goal is to become a diversified dairy company with clear market leadership in cheese and strong position in whole milk products segment in CIS, capitalizing on the development of this one of the largest and fastest growing dairy markets globally. Milkiland intends to grow both organically and through acquisitions, tapping the consolidation potential, especially in cheese segment.

Milkiland distinguishes itself as "supplier of choice" for consumers in its core markets(Ukraine, Russia and Poland) offering a full range of everyday dairy products at the highest value for money. The Group aims to achieve and maintain this by controlling the whole supply chain – from farm to people's homes, and thus ensuring high quality and affordable price.

Milkiland's primary focus is fresh dairy and cheese, the largest and fast growing dairy segments. The Group believes that it knows how to create products appealing to its consumers with their healthy, genuine qualities and superior taste.

One of the main challenges the Group faces is restricted supply of raw milk in Ukraine and Russia, resulting from long term structural shifts in agricultural sectors of both countries. Milk deficit creates opportunities for raw milk producers, and dairy farms are becoming attractive investments.

Milkiland appreciates the importance of quality and affordable raw milk, and therefore sets vertical integration as one of its cornerstone strategic initiatives. In order to address milk supply bottleneck, in 2012 the Group focused on development of its own dairy farming business, as well as improving long-term relations with third party suppliers. Milkiland's strategic goal is to secure up to 60% of raw milk supplies in Ukraine from reliable sources such as own farms and long-term partnerships with thirds party suppliers (cooperatives and farms).

Geographic diversification of business is another strategic priority for the Group, since country risks, trade barriers and logistics in Milkiland's core markets require flexibility and local presence. In order to fulfil this strategic task, the Company seeks to establish strong local divisions in Russia and neighboring markets such as Central Europe.

Also, the Group plans to participate in global dairy trade, in order to have another degree of flexibility and capture attractive opportunities that arise from time to time in commodity markets.

Strategy fulfilment in 2012

In its vertical integration efforts, in 2012 the Group has commenced EUR 20 million worth project of the large-scale dairy farm for 6,800 milking cows stalls. This farm is scheduled for launch in 2013, and upon achievement of full capacity in 2014 will produce 40-50 thousand tons of raw milk annually, securing significant share the Group's milk needs in Ukraine.

Additionally, the Group developed its existing dairy farms and achieved an increase in in-house milk production by 1.7 times over 2011.

In its raw milk supply initiatives the Group also supported milk cooperatives in its milk zone, mainly providing veterinary services, financial aid and training to their members in order to secure higher milk output and quality. During 2012, the cooperatives demonstrated healthy growth, and the share of their supplies to Milkiland has increased considerably.

In pursue of its geographical diversification, in 2012 Milkiland has acquired Mazowiecka Spółdzielnia Mleczarska "Ostrowia". Ostrowia is an advanced cheese making facility capable of producing wide range of dairy products essential to Milkiland, including hard cheese, curd cheese, yoghurts and processed cheese. In 2003-07, the Ostrowia undergone major modernization and currently comprises a state-of-the-art cheese plant. Ostrowia brand is well known in the Polish market and abroad.

Ostrowia will aim to address Milkiland's core CIS markets from Poland. Also, this acquisition allowed Milkiland to establish its footprint in EU, the largest dairy market globally. The Polish cheese market has been steadily growing in recent years. In 2012, it grew by 5% in volume terms and more than 8% in value terms to over EUR 1 billion (PLN 4.9 billion).

Ostrowia's cost of acquisition was EUR 12 million, the Group also spent EUR 0.8 million in 2012 and plans to spend up to EUR 4 million for the plant modernization in 2013.

In 2012 Milkiland also conducted acquisition of cheese making facility Syrodel in Rylsk (Kursk region, Russia), designed to produce cheese (up to 3.5 kt p.a.), whole milk products and butter. The deal was closed in February 2013. The Group intends to use Syrodel to produce hard and specialty cheeses for Russian market and serve as supplier of butter, cream and other products for the Ostankino.

The Group's main achievements in its organic development in 2012 include installation of new cheese line at Ukraine-based Okhtyrka cheese plant (additional capacity of 3 kt p.a.), accomplishment of modernization of Ukrainian Slavuta cheese plant, and installation of new packaging equipment at Ostankino.

Milkiland's corporate structure has changed significantly in 2012, in order to respond to strategic goals set by the Company. During 2012 the Milkiland N.V. has established three subsidiaries: Milkiland EU (Poland), Milkiland RU (Russia), Milkiland Intermarket (Cyprus); their role is to advance the Group's business in respective geographies.

Strategic outlook for 2013

In 2013 Milkiland intends to continue along the initiatives originated in 2012, and focus mainly on integration of the businesses acquired, and launch of the projects started in 2012.

The Group plans to proceed with the reconstruction of Ostrowia cheese making plant in Poland in order to resume the production of hard cheese, which was idle before the acquisition. Additionally, it is necessary to bring Ostrowia with full compliance with the Russian and Ukrainian veterinary authorities' requirements, in order to extend exports.

In agriculture, the Group in 2013 will finish construction of its modern dairy farm and make the facility operational. Also, Milkiland will continue its program of supporting of milk cooperatives.

The Group's investment budget for 2013 ranges EUR 15-20 million.

The Group also will consider acquisitions of attractive assets in target markets of Russia, Poland, Belarus 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 2012, 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. The ban was lifted in April 2012 but it negatively affected the Group's cheese sales in 2012. For more details on the current situation with Russian export restrictions, refer to section *Material Events*.

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 the leading milk processors in Ukraine with strong positions nationwide and specifically in the regions of its operations, it could be subject of legal proceedings, including those under competition legislation, which could have an adverse effect on the Group's future business.

Country risks

Economic considerations

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

Exchange and interest rate risk

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

Risks of legislation and judicial system

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

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

Political and governmental considerations

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

CORPORATE GOVERNANCE REPORT

Introduction

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

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

Main points of corporate governance structure

The Company is a public company with limited liability incorporated under Dutch law, having its registered office at Hillegomstraat 12-14, 1058 LS, Amsterdam, the Netherlands. The Company has seven subsidiaries: JSC Ostankino Dairy, Milkiland RU LLC (all – Russian Federation), DE Milkiland Ukraine, Milkiland N.V. LLC (all – Ukraine), MLK Finance Limited (Cyprus), Milkiland Intermarket (CY) LTD (Cyprus), that has 1 Ukrainian subsidiary, Milkiland EU Sp.z.o.o. (Poland) that has 1 Polish subsidiary. 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 directors: two Executive and five Non-Executive Directors. Two Non-Executive Directors (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 2012, the composition of the Board of Management was as follows:

A. Yurkevych: Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2011;
V. Rekov: Non-Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2011;
P. Yokhym: Executive Director, appointed as of May 9, 2008 and dismissed as of June 22, 2012;
O. Yurkevich: Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2011;
F.J. Aherne: Non-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;
O. Rozhko: Non-Executive Director, Chairman of the Board of Directors, appointed as of June 22, 2012.

Board of Directors - Terms of Reference

The Terms of Reference of the Board of Directors, which provide for certain duties, composition, procedures and decision-making of the Board of Directors, were adopted in accordance with article 13.4 of the Company's Articles of Association, the Best practice provisions under chapters II (and III) of the Code and Best practice provisions No. 28 and No. 40 of the WSE Corporate Governance Rules. The Terms of Reference of the Board of the Company are applied and interpreted with reference to the Code and the WSE Corporate Governance Rules and can be viewed on the Company's website (www.milkiland.nl). The Chairman of the Board of Directors determines the agenda, presides over meetings of the Board of Directors and is responsible for the proper functioning of the Board of Directors. The Chairman of the Board of Directors shall always be a Non-Executive Director and is appointed by the General Meeting of Shareholders. The Board of Directors is assisted by the 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 24,473,588 amounting to approximately 78.3% of the issued and paid up share capital of the Company. The shareholding of the Directors has been notified with the AFM (*Stichting Autoriteit Financiële Markten*).

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

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

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 2012, one General Meeting of Shareholders was held. The principal decisions taken by the General Meeting of Shareholders involved:

- the appointment of Oleg Rozhko as new Non-Executive Director,
- resignation of P.I. Yokhym from the Board of Directors,
- adoption of the annual accounts for the financial year 2011,
- discharge of the members of the Board of Directors for the financial year 2011,
- adoption of the Regulation of Division of Duties of Members of the Board of Directors,
- appointment of the external auditor as referred to in section 2:393 of the Dutch Civil Code for the financial year 2012, and
- the authorization of the Board of Directors for a period of 18 months following June 22, 2012 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 2012, the internal audit function of the Company was performed by the internal audit department and partially by licensed external auditors. The Company recognizes the importance of internal audit and envisages to further improve its existing audit function. The 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 Corporate Governance Codes

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.

The Company does not comply with provisions regarding balanced proportion of men and women in its Board of Directors (Recommendation I.9. of the Code of Best Practice for WSE Listed Companies; Dutch Civil Code, Article 2:391, paragraph 7). The Directors were appointed prior to the recent developments in the legislation, therefore, the Board of Directors currently consists of 6 men and one woman. The Company believes gender diversity is an important factor for its effective performance. The Board of Directors, in its capacity of selecting and nominating suitable candidates, will seek to produce a list of candidates that would reflect the Company's intention to maintain an appropriate balance of genders in its management bodies. The Board of Directors will endeavour to increase the number of female Directors by 2015.

Since the WSE Corporate Governance Rules are similar to the rules provided under the Dutch Corporate Governance Code (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 boardmembers 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.8.3 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 five 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 2013.

Report of non-executive directors

In 2012,Mr. Vyacheslav Rekov, Mr. Willem van Walt Meijer and Mr. Gerard Heerink proceeded to perform their duties as Non-Executive Directors of the Company. Mr. Anatoliy Yurkevych has performed his duties as Non-Executive Director until June 22, 2012 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 the position of Mr. Anatoliy Yurkevych was amended to Executive Director. Mr. Frederick Aherne has performed his duties as Executive Director until June 22, 2012 when the General Meeting of Shareholders adopted the Regulation of Division of Duties of Members of the Board of Directors in which the position of Mr. Frederick Aherne was amended to Non-Executive Director.

Also the General Meeting of Shareholders of Milkiland N.V. appointed Mr. Oleg Rozhko as Non-Executive member of the Board of Directors and Chairman of the Board of Directors as of the date of the annual General Meeting of Shareholders on June 22, 2012.

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 of Best Practice Provision III.2.2 of the Code, Mr. Anatoliy Yurkevych, Mr. Vyacheslav Rekov and Mr. Oleg Rozhko 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. Oleg Rozhko is the Chairman of the Board of Directors, 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 2012 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 2012 for rendered services is presented in the table below.

Name	Position in 2012	Appointed	2012		
			Gross Remuneration (EUR)	Expenses reimbursement	Total
Frederick J. Aherne	Member of the Board of Directors	06.12.2010	398,591	21,690	420,281
Olga Yurkevich	Member of the Board of Directors , Chief Production Officer	28.08.2007	500,252	43,380	543,632
Anatoliy Yurkevych	Member of the Board of Directors , Chief Executive Officer	22.06.2012	357,794	43,380	401,174
Vyacheslav Rekov	Member of the Board of Directors	28.08.2007	34,339	-	34,339
Pavlo Yokhym	Member of the Board of Directors	09.05.2008 till 22.06.2012	19,410	-	19,410
Willem van Walt Meijer	Member of the Board of Directors , Head of Audit Committee	06.12.2010	55,423	-	55,423
Gerard Heerink	Member of the Board of Directors	17.06.2011	20,438	-	20,438
Oleg Rozhko	Chairman of the Board of Directors	22.06.2012	25,000	-	25,000

Directors' remuneration stands for directors' fees, salaries of Executive Directors, bonuses and other incentive payments.

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 2012 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 2012 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at 31 December 2012 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended 31 December 2012, 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 Audit & Assurance B.V., which performed the audit of the statutory financial statements of the Company for the year ended 31 December 2012, 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 2012, 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.

The Group believes that 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 2013.

Board of Directors of Milkiland N.V.

Amsterdam, 29April 2013

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

Contents

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Current Assets			
Cash and cash equivalents	7	23,850	53,410
Trade and other receivables	0	48,236	28,994
Inventories	9	25,487	34,471
Current biological assets	13	5,420	3,422
Current income tax assets		204	498
Other taxes receivable	10	10,750	22,607
		113,947	**143,402**
Non-Current Assets			
Goodwill	11	3,485	3,092
Property, plant and equipment	12	189,129	156,121
Non-current biological assets	13	3,296	2,583
Other intangible assets	12	3,824	1,419
Deferred income tax assets	28	9,754	21,061
Other Non-current assets		1,006	-
		210,494	**184,276**
TOTAL ASSETS		**324,441**	**327,678**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	15,120	18,430
Current income tax liabilities		534	508
Other taxes payable	15	1,570	1,861
Short-term loans and borrowings	16	50,526	67,153
		67,750	**87,952**
Non-Current Liabilities			
Loans and borrowings	16	46,427	28,168
Deferred income tax liability	28	30,715	43,874
Other non-current liabilities		864	1,869
		78,006	**73,911**
Total liabilities		**145,756**	**161,863**
Equity attributable to owners of the Company			
Share capital	17	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve	18	53,228	58,320
Currency translation reserve	19	(7,441)	(8,134)
Retained earnings		74,702	57,861
		172,301	**159,859**
Non-controlling interests		6,384	5,956
Total equity		**178,685**	**165,815**
TOTAL LIABILITIES AND EQUITY		**324,441**	**327,678**

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

	Notes	2012	2011
Revenue	21	287,013	279,758
Change in fair value of biological assets	22	934	1,859
Cost of sales	23	(209,737)	(214,101)
Gross Profit		**78,210**	**67,516**
Selling and distribution expenses	24	(26,178)	(21,567)
Administration expenses	25	(27,695)	(23,979)
Other expenses, net	26	(3,624)	(3,140)
Gain on subsidiary acquisition	4	1,325	2,205
Operating Profit		**22,038**	**21,035**
Finance income	27	2,340	2,270
Finance expenses	27	(9,500)	(7,767)
Foreign exchange gain/(loss), net		491	550
Profit before tax		**15,369**	**16,088**
Income tax	28	(1,808)	(1,291)
Net profit for the year		**13,561**	**14,797**
Other comprehensive income/(loss)			
Gains on revaluation of properties	12	-	29,920
Tax effect on revaluation of properties	12	-	(4,794)
Exchange differences on translating to presentation currency		(524)	2,673
Total comprehensive income		**13,037**	**42,596**
Profit attributable to:			
Owners of the Company		12,771	14,391
Non-controlling interests		790	406
		13,561	**14,797**
Total comprehensive income attributable to:			
Owners of the Company		12,350	42,346
Non-controlling interests		687	250
		13,037	**42,596**
Earnings per share	**33**	**40.87**	**46.05**

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

	2012	2011
Cash flows from operating activities:		
Profit before income tax	**15,369**	**16,088**
Adjustments for:		
Depreciation and amortization	13,519	9,831
Change in provision and write off of trade and other accounts receivable	926	1,996
Change in provision and write off of unrealised VAT	6,928	1,059
Loss from write off, revaluation and disposal of non-current assets	670	3,289
Change in provision and write off of inventories	1,501	797
Change in fair value of biological assets	(933)	(1,859)
Foreign exchange gain	(491)	(550)
Finance income	(2,340)	(2,270)
Gain realised from subsidiary acquisitions	(1,325)	(2,205)
Finance expenses	9,500	7,767
Write off of accounts payable	(44)	(1,188)
Operating cash flow before movements in working capital	**43,280**	**32,755**
Increase in trade and other accounts receivable	(24,186)	(7,694)
Decrease/(increase) in inventories	9,109	(9,074)
Increase in biological assets	(2,430)	(1,591)
(Decrease)/increase in trade and other payables	(834)	3,596
Decrease/(increase) in other taxes receivable	4,782	(1,930)
(Decrease)/increase in other taxes payable	(291)	789
Net cash provided by operations:	**29,430**	**16,851**
Income taxes paid	(3,930)	(2,386)
Interest received	2,340	2,264
Interest paid	(9,919)	(7,687)
Net cash provided by operating activities	**17,921**	**9,042**
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(34,548)	(5,552)
Proceeds from sale of property, plant and equipment	174	918
Increase of other non-current assets	(1,031)	-
Acquisition of subsidiaries, net of cash acquired	(14,146)	(4,593)
Net cash provided used in investing activities	**(49,551)**	**(9,227)**
Cash flows from financing activities		
IPO costs paid	-	(782)
Proceeds from borrowings	91,676	58,712
Repayment of borrowings	(87,025)	(43,043)
Commission paid	(2,202)	-
Acquisition of non-controlling interest	(165)	(712)
Net cash provided by financing activities	**2,284**	**14,175**
Net (decrease)/increase in cash and equivalents	**(29,346)**	**13,990**
Cash and equivalents, beginning of year	**53,410**	**37,757**
Effect of foreign exchange rates on cash and cash equivalents	(214)	1,663
Cash and equivalents, end of year	**23,850**	**53,410**

(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 2011	**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 non-controlling interests	-	-	943	(11)	(266)	**666**	(425)	**241**
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**
Balance at 1 January 2012	**3,125**	**48,687**	**(8,134)**	**58,320**	**57,861**	**159,859**	**5,956**	**165,815**
Total comprehensive income for the year	-	-	702	(1,123)	12,771	**12,350**	687	**13,037**
Acquisition of non-controlling interests	-	-	(9)	36	65	**92**	(259)	**(167)**
Realised revaluation reserve, net of income tax	-	-	-	(4,005)	4,005	**-**	-	**-**
Balance at 31 December 2012	**3,125**	**48,687**	**(7,441)**	**53,228**	**74,702**	**172,301**	**6,384**	**178,685**

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 2012 for Milkiland N.V. (the "Company") and its subsidiaries (together referred to as the "Group" or "Milkiland").

The financial statements were approved by the Board of Directors on 26 April 2013 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 2012 the Company is controlled by 1, Inc. Cooperatief (holding 72.8% of shares). The Company is ultimately controlled by Anatoliy Yurkevych and Olga Yurkevych. Commencing from 6 December 2010, the Company became listed on the Warsaw Stock Exchange having placed 20% of newly issued and 2.4% of existing shares to investors.

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

Milkiland is a diversified dairy processing Group, producing and distributing dairy products in Europe and worldwide with the major focus on Russia and other CIS countries. The production facilities of the Group are located in Ukraine and in Russia, able to process up to 1,100 thousand tons 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 2012 to 31 December 2012 the Company had the following direct and indirect subsidiaries:

Name	Country of incorporation	Effective share of ownership 31 December 2012	Effective share of ownership 31 December 2011
MLK Finance Limited	Cyprus	100.0%	-
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	-
Milkiland Corporation	Panama	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	-
Ostrowia 10 sp. z.o.o	Poland	100.0%	-
JSC Ostankino Dairy Combine	Russia	95,9%	95,3%
LLC Milkiland RU	Russia	100.0%	-
DE Milkiland Ukraine	Ukraine	100.0%	100.0%
DE Aromat	Ukraine	100.0%	100.0%
PE Prometey	Ukraine	100.0%	100.0%
PE Ros	Ukraine	100.0%	100.0%
LLC Malka-trans	Ukraine	100.0%	100.0%
LLC Mirgorodsky Cheese Plant	Ukraine	100.0%	100.0%
LLC Kyiv Milk Plant #1	Ukraine	100.0%	100.0%
JSC Chernigiv Milk Plant	Ukraine	76,0%	76,0%
PrJSCGorodnia Milk Plant	Ukraine	72,3%	72,3%
LLC Agrosvit	Ukraine	100.0%	100.0%
LLC Molochnivyroby	Ukraine	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%
LLC Milkiland Intermarket (former LLC Milkiland N.V Krainy)	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%
LLC Moloko Polissia	Ukraine	100.0%	100.0%
Pr JSCTransportnyk	Ukraine	70,3%	70,3%
LLC Milkiland Agro	Ukraine	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%
PJSC Iskra	Ukraine	68,1%	68,1%
DE Agrolight	Ukraine	100.0%	100.0%
DE Krasnosilsky Milk	Ukraine	100.0%	100.0%
LLC Bachmachregionpostach	Ukraine	100.0%	100.0%
LLC Avtek Rent Service	Ukraine	100.0%	100.0%
AF Konotopska	Ukraine	100.0%	100.0%
LLC Batkivschyna	Ukraine	100.0%	100.0%
PE Agro PersheTravnya	Ukraine	100.0%	100.0%
ALLC Nadiya	Ukraine	100.0%	100.0%
LLC Zemledar 2020	Ukraine	100.0%	100.0%
PAE Dovzhenka	Ukraine	100.0%	-
LLC Feskivske	Ukraine	100.0%	-

During the year ended 31 December 2012, the Group finalized acquisition of agricultural companies PAE Dovzhenka, LLC Feskivske in Ukraine and plant Emir 10 sp. z.o.o in Poland (Note4).

During the year ended 31 December 2012, the Group finalized registration of new subsidiaries Milkiland EU sp. z.o.o. in Poland, MLK Finance Limited and Milkiland Intermarket (CY) LTD in Cyprus, LLC Milkiland RU in Russia.

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

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

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

- ***IFRS 9, Financial instruments*** (issued in December 2009).The standard replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. For financial liabilities, the standard retains most of the IAS 39 requirements. Adoption of IFRS 9 is mandatory from 1 January 2015; earlier adoption is permitted. IFRS 9 is not expected to have any significant impact on the Group's financial statements. IFRS 9 has not been adopted by the European Union at the date of this report issue and it is unlikely that the standard will be applicable on the European Union territory from 1 January 2015.

- ***IFRS 10, Consolidated financial statements*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed by the EU 1 January 2014). The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities. Earlier application is permitted. The Group is currently assessing the impact of the new standard on its financial statements.
- ***Amendments to IFRS 10, IFRS 11 and IFRS 12*** (issued in June 2012 and effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU). The amendments explain that the 'date of initial application' in IFRS 10. The amendments also clarify how an investor shall adjust comparative period(s) retrospectively. The Board has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. IFRS 12 is further amended to provide additional transition relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***IFRS 13, Fair value measurement*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).The standard applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. It explains how to measure fair value for financial reporting and does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. IFRS 13 is not expected to have any significant impact on the Group's financial statements.
- **Amendments to IFRS 7, Financial instruments: Disclosures - Offsetting financial assets and financial liabilities** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendments require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Amendments to IFRS 7, Financial instruments: Disclosures – Transfers of financial assets*** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***IAS 19, Employee benefits*** (revised in June 2011 and effective for periods beginning on or after 1 January 2013). The standard prescribes the accounting and disclosure by employers for employee benefits. The Standard does not deal with reporting by employee benefit plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans). The amendments are not expected to have any significant impact on the Group's financial statements.

- ***Amendments to IAS 1, Presentation of financial statements - Presentation of items of other comprehensive income*** (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).The amendments improved the consistency and clarity of the presentation of items of other comprehensive income (OCI). The amendments also highlighted the importance of presenting profit or loss and OCI together and with equal prominence. In 2007 IAS 1 was amended to require profit or loss and OCI to be presented together. The amendments issued in June 2011 retained that requirement, but focused on improving how items of OCI are presented. The main change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Amendments to IAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities*** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendments clarify requirements for offsetting financial assets and financial liabilities. The amendments are not expected to have any significant impact on the Group's financial statements.
- ***Annual improvements 2011*** (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013).The improvements set out amendments to IFRSs and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments result from proposals that were contained in the exposure draft of proposed amendments to IFRSs, improvements to IFRSs, published in June 2011. The Annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are not expected to have any significant impact on the Group's financial statements.

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

- ***IFRS 11, Joint arrangements*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed by the EU 1 January 2014).
- ***IFRS 12, Disclosure of interest in other entities*** (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed by the EU 1 January 2014).
- ***Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Government loans*** (issued in March 2012 and effective for annual periods beginning on or after 1 January 2013).
- ***IAS 27, Separate financial statements*** (revised in 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed by the EU 1 January 2014).
- ***IAS 28, Associates and joint ventures*** (revised in 2011 and effective for annual periods beginning on or after 1 January 2013, endorsed by the EU 1 January 2014).
- ***IFRIC 20, Stripping costs in the production phase of a surface mine*** (issued in October 2010 and effective for annual periods beginning on or after 1 January 2013).
- ***Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities*** (issued in November 2012 and effective for annual periods beginning on or after 1 January 2014)

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	5-30
Other	1-15

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.
Trade Marks of purchased subsidiaries are amortised under the straight-line method over its useful life comprising 10 years
Land lease rights of purchased subsidiaries are amortised under the straight-line method over its useful life comprising 5-7 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 labor 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.

<u>Financial assets at fair value through profit and loss</u>

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.

<u>Fair value of biological assets</u>

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.

<u>Fair value of agricultural produce</u>

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.

<u>Non-derivative financial liabilities</u>

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.

Deferred tax

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

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

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

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

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

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

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

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

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

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

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.

(All amounts in euro thousands unless otherwise stated)

Foreign currency

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

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

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

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

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

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

	US dollar	UAH	RUR
Average for year ended 31 December 2012	1.2857	10.2741	39.9262
As at 31 December 2012	1.3194	10.5460	40.3295
Average for year ended 31 December 2011	1.3916	11.0894	40.8509
As at 31 December 2010	1.2939	10.3380	41.6714

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. Refer to the note 10 for the disclosure of VAT receivable.

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.

3 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.

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

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

(All amounts in euro thousands unless otherwise stated)

4 Business combinations

Acquisitions of non-controlling interests. In 2012 the Group acquired 0.6% of non-controlling interest in JSC Ostankino Dairy Combine from minority shareholders having paid EUR 166 thousand. The result of the acquisition at the amount of EUR 92 thousand is recognised directly in equity.

Net assets of Ostankino Dairy Combine as at 31 December 2012	43,168
Share in net assets acquired (0.6%)	258
Consideration paid	(166)
Excess of share in net assets acquired over consideration paid	92

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

In July 2012, the Group acquired 100% of the share capital of Emir sp.z.o.o. (subsequently renamed to "Ostrowia sp.z.o.o.", the owner of Polish cheese maker Ostrowia), for the total consideration EUR 12 million. As a result of the acquisition, the Group expects to enter into EU milk markets and reduce its operating risks such as raw milk price volatility in Ukraine and cheese supply limitations to Russia.
The following table summarizes the consideration paid for Emir 10, and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

(All amounts in euro thousands unless otherwise stated)

Identifiable assets acquired and liabilities assumed:	**PAE Dovzhenka**	**LLC Feskivske**	**Ostrowia sp.z.o.o.**
Cash and cash equivalents	29	38	34
Accounts receivable	-	327	47
Taxes receivable	-	-	22
Inventories	39	349	12
PPE	210	633	12,918
Biological assets	47	422	-
Accounts payable	(16)	(662)	-
Short-term loans and borrowings	-	(35)	-
Taxes payable	(4)	1	1
Other intangible assets	123	327	2,010
Deferred income tax liability	-	-	(702)
Other non-current liabilities	(249)	-	-
Provision	-	-	(892)
Total net identifiable assets	**179**	**1,400**	**13,450**
Cash paid	406	1,692	12,125
Fair value of identifiable assets	179	1,400	13,450
Goodwill/(Gain on acquisition of subsidiaries)	**227**	**292**	**(1,325)**

The excess of Ostrowia sp.z.o.o. net assets acquired over the consideration paid in the amount of EUR 1,325 thousand is recognized in the consolidated statement of comprehensive Income as gain on subsidiary acquisition. This gain arises due to the purchase of non-operational entity which required additional efforts to put it into operations.

Provision of EUR 892 thousand represents obligations to pay in 2012 and 2013 for ceasing of operational leasing contract according to which the whole PPE of Ostrowia sp.z.o.o. were leased to a third party counteragent. At 31 December 2012 EUR 393 thousand of unpaid obligations were recognized as other financial payables within trade and other payables (note 14).

Revenue received and profit/(loss) incurred by the major acquisition from the day of acquisition to 31 December 2012 are as follows:

	PAE Dovzhenka	LLC Feskivske	Ostrowia sp.z.o.o.
Revenue	13	259	232
Net profit/(Loss)	(58)	599	(921)

In 2011 the Group acquired outstanding 55% in AF Konotopska and 100% shares in agricultural companies LLC Batkivschyna, PE Agro PersheTravnya, ALLC Nadiya, LLC Zemledar 2020.

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.

(All amounts in euro thousands unless otherwise stated)

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	221	(7)	168
PPE and other intangible assets	1,447	1,977	1,220	-	842
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**	**1,525**	**116**	**579**
Cash paid	1,088	1,255	926	-	1,199
Payable	-	342	773	9	18
Fair value of identifiable assets	2,114	2,669	1,525	116	579
Goodwill/(gain on acquisition of subsidiaries)	**(1,026)**	**(1,072)**	**174**	**(107)**	**638**

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)

ALLC Nadiya and PE Agro PersheTravnya have been acquired in the end of 2011.The fair value of the net assets obtained has not been determined as at 31 December 2011 due to the short time period before the year-end close. As a result provisional goodwill at the amount of EUR 2,181 thousand was recognized and disclosed in the financial statement prepared as of 31 December 2011 and for the year then ended. Consequently, the fair value of net assets as at the day of acquisition was subsequently determined in 2012 by the independent valuator and respective comparative amounts were revised for the year ended 31 December 2011. As a result the goodwill as of 31 December 2011 was decreased by EUR 1,369 thousand to EUR 812 thousand predominantly due to revaluation of property, plant and equipment. Adjustment performed does not have any effect on the financial statement of the Group prepared as of 31 December 2010 and for the year then ended. Please refer to note 11.

5 Segment information

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

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

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

- *Cheese&butter*. This segment is involved in production and distribution of cheese and butter. It is the largest Group's segment comprising 51% (2011: 55%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 40% (2011: 36%) of Group's revenue;
- *Ingredients* include production and distribution of dry milk, agricultural products, and other products, which - although contributing a relatively small amount of revenue to the Group, are monitored by the Board of Directors 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.

(All amounts in euro thousands unless otherwise stated)

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:

	2012			2011		
	Russia	**Ukraine**	**Total**	**Russia**	**Ukraine**	**Total**
Total segment revenue	115,449	202,352	317,801	110,235	204,819	315,054
Inter-segment revenue	-	(30,788)	(30,788)	-	(35,296)	(35,296)
Revenue from external customers	115,449	171,574	287,013	110,235	169,523	279,758
EBITDA	**6,648**	**32,770**	**39,418**	**5,749**	**29,462**	**35,211**
EBITDA margin	6%	19%	14%	8%	14%	13%
Depreciation and amortisation	3,596	9,383	12,979	3,192	6,639	9,831

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

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

	2012				2011			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	166,473	114,667	36,661	317,801	180,285	100,777	35,851	316,913
Inter-segment revenue	(21,199)	-	(9,589)	(30,788)	(27,088)	-	(10,067)	(37,155)
Revenue from external customers	145,274	114,667	27,072	287,013	153,197	100,777	25,784	279,758
EBITDA	**24,687**	**11,081**	**3,650**	**39,418**	**25,387**	**6,653**	**3,170**	**35,211**
EBITDA margin	17%	10%	13%	14%	17%	7%	12%	13%
Depreciation and amortisation	6,279	5,449	1,251	12,979	3,784	5,088	959	9,831

(All amounts in euro thousands unless otherwise stated)

A reconciliation of EBITDA to profit before tax:

	2012	2011
EBITDA	39,418	35,211
Other segments EBITDA	(1,533)	(647)
Total segments	**37,885**	**34,564**
Depreciation and amortisation	(13,519)	(9,831)
Non-recurring items	(2,328)	(3,698)
Finance expenses	(9,500)	(7,767)
Finance income	2,340	2,270
Foreign exchange gain, net	491	550
Profit before tax	**15,369**	**16,088**

Non-recurring items:

	2012	2011
Gains on acquisition of subsidiaries	1,325	2,205
Loss from disposal and impairment of non-current assets	(670)	(3,289)
Gain from write off of accounts payable	-	540
Retirement benefits to CEO	-	(2,066)
Acquisition-related cost	(1,303)	-
Non-recurring representative charges and consulting fees	(1,680)	(1,088)
	(2,328)	**(3,698)**

In 2012 acquisition-related costs of EUR 1,303 thousand incurred in relationship with business combination described in Note 4 predominantly relates to acquisition of subsidiary in Poland. Acquisition-related costs were expensed as incurred within other expenses, net (note 26).

6 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:	**2012**	**2011**
Sales revenue	23,046	1,957
Finance expenses on other borrowings	(223)	(1,123)

Ultimate shareholders:	**2012**	**2011**
Finance expenses on other borrowings	-	(11)

(All amounts in euro thousands unless otherwise stated)

The outstanding balances due from related parties as of 31 December were as follows:

Entities under common control:	**2012**	**2011**
Trade accounts receivable	6,557	855
Other financial assets	1,694	-
Other accounts receivable	-	31

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. There was no compensation in relation to this guarantee.

During 2012, the Group extended prepayments for farming equipment in amount EUR 7,558 thousand, and for agricultural seeds and crop protection products in amount EUR 4,000 thousand, through agency contracts with related parties under common control. Delivery of equipment is expected before October 2013, while delivery of seeds and crop protection is scheduled before June 2013. All above contracts were secured by personal guarantee of the Company's controlling shareholder.

Key management compensation

Key management includes Board of directors. The short-term employee benefits paid or payable to key management for employee services is EUR 1,411 thousand (2011: EUR 3,055 thousand).

7 Cash and cash equivalents

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

	31 December 2012	**31 December 2011**
Short term deposits	8,888	27,740
Cash in bank and cash on hand	14,962	25,670
Total cash and cash equivalents	**23,850**	**53,410**

As at 31 December 2011, short term deposits at the amount of EUR 24,052 thousand have been pledged as collateral for short-term bank loans (Note 16).

As at 31 December 2011 EUR 1,932 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.

An analysis of the Group's cash and cash equivalents by currency is provided in note 32.

(All amounts in euro thousands unless otherwise stated)

8 Trade and other accounts receivable

	31 December 2012	31 December 2011
Trade accounts receivable	36,919	24,705
Other financial assets	2,785	284
Allowance for doubtful debts	(2,757)	(1,999)
Total financial assets within trade and other receivables	**36,947**	**22,990**
Advances issued	10,346	3,924
Other receivables	2,827	5,906
Allowance for doubtful debts	(1,884)	(3,826)
Total trade and other accounts receivable	**48,236**	**28,994**

As at 31 December 2011 trade receivables of EUR 2,513 thousand were past due, but not impaired. They relate to the customers of no default history.

As at 31 December 2011 trade receivables of EUR 13,187 (2011: EUR 9,760 thousand) were past due and impaired in the amount of EUR 2,757 thousand (2011: EUR 1,999 thousand). Based on historic information, that includes past due period and estimated recoverability value, the Group 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:

	31 December 2012		31 December 2011	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Current and not impaired	23,732	2,785	12,432	284
Total current and not impaired	**23,732**	**2,785**	**12,432**	**284**
Past due but not impaired				
- less than 30 days overdue	-	-	2,433	-
- 30 to 60 days overdue	-	-	80	-
Total past due but not impaired	**-**	**-**	**2,513**	**-**
Individually determined to be impaired				
- less than 30 days overdue	8,183	-	7,657	-
- 30 to 60 days overdue	1,406	-	998	-
- 60 to 90 days overdue	548	-	89	-
- 90 to 360 days overdue	1,718	-	352	-
- over 360 days overdue	1,332	-	664	-
Total individually impaired	**13,187**	-	**9,760**	**-**
Less impairment provision	(2,757)	-	(1,999)	-
Total	**34,162**	**2,785**	**22,706**	**284**

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

(All amounts in euro thousands unless otherwise stated)

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

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

	2012	2011
Balance 1 January	**1,999**	**2,391**
Provided/(unused amount reversed) during the year	859	(279)
Receivable written off during the year as uncollectible	(93)	(101)
Exchange difference	(8)	(12)
Balance 31 December	**2,757**	**1,999**

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 32.

The Group does not hold any collateral as security.

9 Inventories

	31 December 2012	31 December 2011
Raw and other materials	8,527	11,492
Finished goods and work in progress	13,383	21,091
Agriculture produce	3,577	1,888
Total inventories	**25,487**	**34,471**

At 31 December 2012 and 31 December 2011 bank borrowings are secured on inventories the value of EUR 1,899 thousand (2011: 2,245) (note 16).

Agriculture produce as at 31 December 2012 include a gain from revaluation of maize, wheat and barley at amount EUR 618 thousand (2011: 315 thousand).

As at 31 December 2012 inventories are stated net of provision for obsolescence at the amount of EUR 1,537 thousand (2011: EUR 598 thousand).

10 Other taxes receivable

	31 December 2012	31 December 2011
VAT recoverable	10,560	22,407
Payroll related taxes	154	53
Other prepaid taxes	36	147
Total other taxes receivable	**10,750**	**22,607**

VAT receivable as at 31 December 2012 is shown net of provision at the amount of EUR 2,018 thousand (31 December 2011: EUR 7,639 thousand). The provision for VAT is created due to complexity of reimbursement of VAT in Ukraine and is estimated at 35% (2011: 28%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

(All amounts in euro thousands unless otherwise stated)

11 Goodwill

	2012	2011
Balance at 31 December 2011	3,092	2,117
Acquisitions	518	2,181
Reassessment of Goodwill of purchased entities in the end of 2011	-	(1,369)
Foreign currency translation	(125)	163
Balance at 31 December 2012	**3,485**	**3,092**

Goodwill is initially recognized as an asset during the primary evaluation. As the goodwill relates to foreign subsidiaries, it is translated each year as part of the translation of the foreign operation. The result of the reassessment of the Goodwill of the purchased entities amounts to EUR 812. Please refer to note 4 for details.

(All amounts in euro thousands unless otherwise stated)

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Milk production operations – represented by Ostankino Dairy Combine Company located in Russia.
- Agricultural operations – represented by four agricultural companies located in Ukraine that were purchased by the Group during the years ended 31 December 2011 and 2012 (note 4).

The carrying amount of goodwill was allocated to cash-generating units as follow:

	31 December 2012	31 December 2011
Milk production operations	2,114	2,117
Agricultural operations	1,371	975
	3,485	**3,092**

Impairment test for goodwill

Impairment testing of goodwill is performed annually.

The recoverable amounts of the cash-generating units are based on value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 31 December 2017.

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 for Ostankino Dairy Combine 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.

	2012	2011
Pre-tax discount rate	15.62%	15.78%
Revenue growth rate for the five-year period	7%-6%	5%
EBITDA growth rate for the five-year period	12%-13%	4% - 11%
Revenue growth rate after the five-year period	0%	0%

The key assumptions used for the value in use calculations for four agricultural companies represented by LLC Feskivske, PAE Dovzhenka , PE Agro Pershe Travnya and ALLC Nadiya 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.

	2012
Pre-tax discount rate	19.60%-16.60%
Revenue growth rate for the five-year period	8%
EBITDA growth rate for the five-year period	8%
Revenue growth rate after the five-year period	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 2012 and in 2011. 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)

12 Property, plant and equipment and intangible assets

	Land and Buildings	Plant and equipment	Other assets	Construc-tions in progress	Intangible assets	Total
At 1 January 2011						
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**
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	3,662	727	168	-	1,080	5,637
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	114,542	38,815	13,007	1,614	1,656	169,634
Accumulated depreciation and amortisation	(2,917)	(6,687)	(2,253)	-	(237)	(12,094)
Net book value	**111,625**	**32,128**	**10,754**	**1,614**	**1,419**	**157,540**
Year ended 31 December 2012						
Opening net book value	111,625	32,128	10,754	1,614	1,419	157,540
Additions	1,176	3,115	1,004	28,833	356	34,484
Additions from acquisition	6,923	6,619	291	-	2,418	16,251
Depreciation and amortisation	(3,966)	(7,297)	(1,906)	-	(295)	(13,464)
Transfers	(2,905)	3,289	(384)	-	-	-
Revaluation	-	-	-	-	-	-
Disposals	(9)	(398)	(181)	(35)	(37)	(660)
Exchange rate difference	(45)	(176)	(204)	(736)	(37)	(1,198)
Closing net book value	**112,799**	**37,280**	**9,374**	**29,676**	**3824**	**192,953**
At 31 December 2011						
Revalued cost	119,052	50,323	13,032	29,676	4,482	216,565
Accumulated depreciation and amortisation	(6,253)	(13,043)	(3,658)	-	(658)	(23,612)
Net book value	**112,799**	**37,280**	**9,374**	**29,676**	**3,824**	**192,953**

At 31 December 2012 bank borrowings are secured on properties for the value of EUR 82,115 thousand (2011: EUR 73,101 thousand) (note 16).

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

As a result of the revaluation performed in 2011, a revaluation surplus net of tax effect of EUR 25,126 thousand and specific impairments of EUR 2,268 thousand (note26) were recorded.

At 31 December 2012 the gross carrying value of fully depreciated property, plant and equipment is EUR 6,511 thousand (2011: EUR 1,730 thousand).

At 31 December 2012 EUR 1,955 thousand (2011: nil) of revalued value less accumulated amortization of Trade Marks owned by Ostrowia sp.z.o.o. were included into intangible assets group Trade Marks with remaining useful life of 10 years were recognized as a result of business combination (note 4).

At 31 December 2012 EUR 1,261 thousand (2011: nil) of revalued value less accumulated amortization of land lease rights of purchased agricultural companies is included into intangible assets group. Land lease rights with remaining useful life of 4-7 years were recognized as a result of business combination (note 4).

At 31 December 2012 constructions in progress included EUR 7,558 thousand of prepayments for farming equipment made to related parties (2011: nil). Refer to the note 6 for further elaboration on this matter.

13 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 2012		31 December 2011	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	4,334	3,455	3,443	1,840
Other		485		420
	4,334	**3,940**	**3,443**	**2,260**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Wheat	3,115	777	3,406	1,015
Barley	1,259	112	802	147
Other		591		-
	4,374	**1,480**	**4,208**	**1,162**
Total current biological assets		**5,420**		**3,422**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	3,354	3,296	2,827	2,541
Other livestock		-		42
	3,354	**3,296**	**2,827**	**2,583**

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2012:

	2012	**2011**
1 % increase in discount rate	(169)	(107)
1 % decrease in discount rate	177	94
10 % increase in price for milk	1,574	306
10 % decrease in price for milk	(1,574)	(311)
10 % increase in price for meat	160	164
10 % decrease in price for meat	(160)	(173)
10 % increase in prices for crops	288	173
10 % decrease in prices for crops	(288)	(173)

(All amounts in euro thousands unless otherwise stated)

The following represents the changes during the year ended 31 December 2012 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**
Purchases	-	105	-
Additions from acquisitions of subsidiaries	204	176	89
Investments into future crops	-	-	997
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	(912)	2,820	396
Transfers	1,421	(1,421)	-
Decrease due to harvest	-	-	(1,164)
As at 31 December 2012	**3,296**	**3,940**	**1,480**

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.

(All amounts in euro thousands unless otherwise stated)

14 Trade and other payables

	31 December 2012	31 December 2011
Trade payables	8,693	10,952
Accounts payable for fixed assets	32	49
Accrual for audit fees and consulting services	-	91
Interest payable	188	268
Other financial payables	393	-
Total financial liabilities within trade and other payable	**9,306**	**11,360**
Wages and salaries payable	1,622	2,009
Accruals for bonuses	39	613
Advances received	1,223	2,215
Other accounts payable	1,065	798
Accruals for employees' unused vacations	1,865	1,435
Total trade and other payables	**15,120**	**18,430**

Financial liabilities are normally settled within 60-days period.

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

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note32.

15 Other taxes payable

	31 December 2012	31 December 2011
VAT payable	615	759
Payroll related taxes	694	921
Other taxes payable	261	181
Total other taxes payable	**1,570**	**1,861**

(All amounts in euro thousands unless otherwise stated)

16 Interest bearing loans and borrowings

	31 December 2012	31 December 2011
Current		
Interest bearing loans due to banks	50,232	66,290
Finance leases	294	-
Total current borrowings	**50,526**	**66,290**
Short-term portion of long-term debt		
Interest bearing loans due to banks	-	475
Finance leases	-	388
Total short-term portion of long-term debt	**-**	**863**
Total current borrowings		
Non-current		
Interest bearing loans due to banks	46,282	27,730
Finance leases	145	438
Total non-current borrowings	**46,427**	**28,168**
Total borrowings	**96,953**	**95,321**

At 31 December 2012 bank loans in the amount of EUR 13,672 thousand are classified as short-term. They relate to the renewable long-term credit lines with maturity dates in 2015 and 2016. According to the loan agreements' terms the Company must repay the outstanding principal amount of the loan annually. Next day after repayment the Company is able to take in the whole amount of credit limit again without any other restrictions.

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

	2012	2011
6 months or less	83,281	64,513
6-12 months	-	2,640
1-3 years	13,672	24,654
3-5 years	-	3,514
	96,953	95,321

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

	31 December 2012				31 December 2011			
	USD	UAH	RUR	Total	USD	UAH	RUR	Total
12 months or less								
Outstanding balance, thousand EUR	26,121	294	24,111	**50,526**	35,690	4,380	27,083	**67,153**
Average interest rate, %	10.83	12.30	10.23	**10.55**	11.28	18.33	8.80	**10.74**
1-5 years								
Outstanding balance, thousand EUR	46,287	140	-	**46,427**	24,313	3,855	-	**28,168**
Average interest rate, %	10.83	12.30	-	**10.83**	12.00	19.67	-	**13.05**

At 31 December 2012 bank borrowings are secured on properties, plant and equipment (note 12), inventories (note 9).

17 Share capital

Share capital as at 31 December is as follows:

	31 December 2012		31 December 2011	
	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	31,250,000	3,125
At end of the year	**31,250,000**	**3,125**	**31,250,000**	**3,125**

18 Revaluation reserve

The revaluation reserve arises on the revaluation of properties, plant and equipment. When revalued properties, plant and equipment are depreciated or sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

19 Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group`s foreign operations from their functional currencies to Group`s presentation currency are recognized directly in other comprehensive income and accumulated in the currency translation reserve.

20 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”.

Ukrainian dairy producers, including the Group’s milk processing facilities, are obliged to use the VAT that they charge on their dairy products to pay subsidies to raw milk producers. Under this 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.

The procedure of its utilisation is settled by Ukrainian Government for each calendar year. The grants at the amount of EUR 8,289 thousand the Group obtained in 2012 (2011: EUR 1,463 thousand) were recognised as an income.

The Group also received a EUR 140 thousand in of subsidy from the City of Moscow as a partial compensation for opening of a new job positions in 2011. The Group recognized this sum as deferred income and calculated a respective amortisation in 2012 of EUR 129 thousand (2011: 108 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:	2012	2011
Balance at the beginning of the year	473	454
Grant obtained during the year	-	142
Amortisation of government grant	(129)	(108)
Foreign exchange difference	18	(15)
Balance at the end of the year	**362**	**473**

The Group obtained and recognised in 2011 as deduction of the related finance expense grant from the City of Moscow of EUR 1,882 thousand on compensation of the finance expenses related to loans and borrowings used to purchase the raw milk (note 27).

21 Revenue

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

	2012	2011
Cheese & Butter	145,274	153,197
Whole-milk products	114,667	100,777
Ingredients	27,072	25,784
Total revenue	**287,013**	**279,758**

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

	2012	2011
Russia	184,133	182,662
Ukraine	90,627	82,512
Other	12,253	14,584
Total revenue	**287,013**	**279,758**

22 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR 934 thousand (2011: 1,859 thousand) represents the revaluation of cattle and crops predominantly maize and wheat, at fair value less costs to sell.

(All amounts in euro thousands unless otherwise stated)

23 Cost of sales

	2012	2011
Raw and other materials	139,687	164,432
Wages and salaries	15,604	13,283
Depreciation	11,523	8,559
Transportation costs	9,997	9,326
Gas	9,271	7,261
Electricity	6,395	4,662
Social insurance contributions	5,605	4,131
Repairs of property, plant and equipment	4,230	3,360
Water	888	709
Other	5,422	3,196
Changes in finished goods and work in progress	1,115	(4,818)
Total cost of sales	**209,737**	**214,101**

24 Selling expenses

	2012	2011
Transportation costs	11,211	10,029
Security and other services	4,405	3,242
Marketing and advertising	1,701	886
Wages and salaries	6,009	4,729
Social insurance contributions	1,823	1,455
License fees	325	258
Rental costs	130	239
Depreciation and amortisation	124	117
Other	450	612
Total selling expenses	**26,178**	**21,567**

25 Administrative expenses

	2012	2011
Wages and salaries	10,809	11,213
Social insurance contributions	2,587	2,127
Taxes and other charges	1,292	1,304
Representative charges	1,767	2,050
Other utilities	529	728
Bank charges	3,233	1,173
Repairs and maintenance	444	322
Depreciation and amortisation	1,672	1,124
Consulting fees	2,085	1,984
Security and other services	586	498
Transportation costs	514	115
Property insurance	687	620
Rental costs	226	208
Communication	352	262
Office supplies	208	124
Other	704	127
Total administrative expenses	**27,695**	**23,979**

(All amounts in euro thousands unless otherwise stated)

26 Other expenses, net

	2012	2011
Government grants recognised as income	8,289	1,463
Rental income	446	1,124
Gain from write off of accounts payable	44	1,188
Change in provision and write off of trade and other accounts receivable	(926)	(1,996)
Depreciation	(174)	-
Other (expenses)/income, net	(179)	419
Loss from revaluation of non-current assets	-	(2,268)
Loss from disposal of non-current assets	(670)	(1,020)
Loss from disposal of inventories	(520)	(797)
Penalties	(722)	(207)
Loss from write off of inventories	(981)	13
Acquisition-related costs	(1,303)	-
Change in provision and write off of VAT receivable	(6,928)	(1,059)
Total other expenses, net	**(3,624)**	**(3,140)**

27 Finance expenses, net

Finance expenses	2012	2011
Bank borrowings	9,419	7,736
Finance leases	81	31
Total finance expenses	9,500	7,767
Finance income		
Bank deposits	(2,340)	(2,270)
Total finance income	(2,340)	(2,270)

In 2011 finance expenses are shown net of government grant from the City of Moscow at the amount of EUR 1,882 thousand (note 20).

28 Income tax

	2012	2011
Current income tax expense	3,507	1,438
Adjustments recognized for current income tax of prior period	873	-
Deferred income tax benefit	(2,572)	(147)
Income tax expense	**1,808**	**1,291**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine and Russia). In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (January-March 2011: 25%, April-December 2011: 23%), Russian profit tax was levied at the rate of 20% (2011: 20%). In 2012 the tax rate for Panama operations was 0% (2011: 0%) on worldwide income.

(All amounts in euro thousands unless otherwise stated)

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

	2012	2011
Profit before taxation, including	**15,369**	**16,088**
Profit of companies levied a single agricultural tax (Ukrainian operations)	1,700	2,132
Loss of other Ukrainian companies	806	8,422
Profit of Ostankino Dairy Combine	469	1,328
(loss) of Poland entities	(589)	-
Profit before income tax of other entities	12,983	4,206
Income tax charge at statutory rate of 21% (2011: 23%) (Ukrainian operations)	169	1,937
Income tax charge at statutory rate of 20% (Russian operations)	94	266
Income tax charge at statutory rate of 25.5% (Dutch operations)	(239)	-
Income tax charge at statutory rate of 19% (Poland operations)	(112)	-
Income tax charge at statutory rate of 10% (Cyprus operations)	11	-
Change in deferred taxes resulting from reduction in tax rate	(264)	83
Provision in respect of irrecoverable deferred tax asset	(5,593)	(4,886)
Reassessment of deferred tax liability	802	(260)
Tax effect of items which are permanently not deductible or assessable for taxation purposes	6,940	4,151
Income tax expense	**1,808**	**1,291**

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:

	2012	2011
Deferred tax liability	(30,715)	(43,874)
Deferred tax asset	9,754	21,061
	(20,961)	(22,813)

(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 summarize the components of temporary differences that give rise to deferred tax assets and liabilities:

	1 January 2012	Deferred tax of acquired subsidiaries	Deferred tax income or expense recognised in profit or loss	Deferred tax relating to items that are charged or credited directly to equity	Currency Translation	31 December 2012
Recognised deferred tax assets attributable to the following elements:						
Trade and other receivables	2,416	-	(719)	-	(10)	1,687
Inventories	(3)	-	253	-	(7)	243
Other non-current liabilities	96	-	(27)	-	3	72
Property, plant and equipment	84	-	(74)	-	-	10
Trade and other payables	258	170	(127)	-	(4)	297
Advances received	85,105	-	(29,656)	-	(887)	54,562
Other	121	-	22	-	3	146
Tax losses carried forward	-	42	7,399	-	(182)	7,259
Less accrued provision	(3,050)	-	(5,592)	-	201	(8,441)
Netting with deferred tax liabilities	(63,966)	(212)	16,742	-	1,355	(46,081)
Deffered tax assets	**21,061**	**-**	**(11,779)**	**-**	**472**	**9,754**
Recognised deferred tax liabilities attributable to the following elements:						
Inventories	94	-	(98)	-	4	-
Trade and other receivables	-	-	(243)	-	28	(215)
Advances paid and prepaid expenses	(88,378)	-	29,873	-	945	(57,560)
Property, plant and equipment	(19,556)	(914)	1,524	-	(76)	(19,022)
Netting with deferred tax assets	63,966	212	(16,742)	-	(1,354)	46,082
Deferred tax liabilities	**(43,874)**	**(702)**	**14,314**	**-**	**(453)**	**(30,715)**
Total deferred tax assets and liabilities	**(22,813)**	**(702)**	**2,535**	**-**	**19**	**(20,961)**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2011:

	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
Less accrued provision	(8,057)	4,886	-	121	(3,050)
Netting with deferred tax liabilities	(71,674)	7,708	-	-	(63,966)
Deferred tax assets	**30,503**	**(11,013)**	**-**	**1,571**	**21,061**
Recognised deferred tax liabilities attributable to the following elements:					
Inventories	316	(215)	-	(7)	94
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)**

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 2012 deferred tax assets are shown net of provision for irrecoverable deferred tax assets at the amount of EUR 8,441 thousand (2011: 3,050).

(All amounts in euro thousands unless otherwise stated)

29 Changes in presentation

In the course of preparation of financial statements for the financial year ended 31 December 2012 management has revised accounting for fixed production overheads from administration expenses to cost of sales.

Due to insignificancy government grants recognised as income have been reclassified from separate line items to other expenses. Effects of reclassifications of financial statements for the financial year ended 31 December 2012 are summarised in the table below:

	As previously reported	Reclassifications	As reclassified
Statement of Comprehensive Income			
Cost of sales	(203,514)	(10,587)	(214,101)
General and administrative expenses	(34,566)	10,587	(23,979)
Government grants recognised as income	1,463	(1,463)	-
Other (income)/expenses, net	(4,603)	1,463	(3,140)

30 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 2012, most of the Group's property is insured.

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

In 2012 the Company insured its property, plant and equipment for a total amount of EUR 83,689 thousand (2011: EUR 101,271 thousand).

31 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 2012 and 2011 no changes were made in objectives, policies and procedures of the capital management.

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

(All amounts in euro thousands unless otherwise stated)

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 2012.

As at 31 December 2012 the net debt to capital ratio was 40.91% compared to 20.18% a year before. The net debt to capital ratio at 31 December is as follows:

	2012	**2011**
Total borrowings	96,953	95,321
Less: cash and cash equivalents	(23,850)	(53,410)
Net debt	**73,103**	**41,911**
Total equity	178,685	165,815
Total capital	**251,788**	**207,726**
Net debt to capital ratio	**40.91%**	**20.18%**

32 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.

(All amounts in euro thousands unless otherwise stated)

As of 31 December 2012 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	-	6,383	15,183	15,307	74	36,947
Cash and cash equivalents	6,192	8,682	263	8,486	227	23,850
Total financial assets	**6,192**	**15,065**	**15,446**	**23,793**	**301**	**60,797**
Financial Liabilities						
Loans and borrowings	-	72,374	24,145	434	-	96,953
Financial payables within trade and other payables	441	188	3,018	5,206	453	9,306
Total financial liabilities	**441**	**72,562**	**27,163**	**5,640**	**453**	**106,259**

Comparative information for 2011:

	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)

The following table presents sensitivities of post-tax profit for the year 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:

	2012	**2011**
USD strengthening by 10% (2011: 10%)	(4,224)	(3,427)
USD weakening by 10% (2011: 10%)	4,224	3,427
Euro strengthening by 10% (2011: 10%)	452	550
Euro weakening by 10% (2011: 10%)	(452)	(550)
RUR strengthening by 10% (2011: 10%)	480	(1,240)
RUR weakening by 10% (2011: 10%)	(480)	1,240
PLN strengthening by 10% (2011: 10%)	4	1
PLN weakening by 10% (2011: 10%)	(4)	(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.

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:

	2012	**2011**
Ratings by Moody's		
Baa1	144	151
Baa2	-	107
Baa3	-	2
Ba1	165	-
B1	48	-
B2	19	-
B3	729	19,292
Unrated	21,252	33,758
Cash	1,493	100
Total cash and cash equivalents	**23,850**	**53,410**

(All amounts in euro thousands unless otherwise stated)

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 0.

	31 December 2012		31 December 2011	
Financial assets	Carrying value	Maximum exposure	Carrying value	Maximum exposure
Cash and cash equivalents	23,850	23,850	53,410	53,410
Trade and other receivables	36,947	36,947	22,990	22,990
	60,797	**60,797**	**76,400**	**76,400**

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.

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 2012 the Group had approximately 25% (2011: 68%) of its borrowings in fixed rate instruments and 75% (2011: 32%) in variable rate instruments.

At 31 December 2012, if interest rates on borrowings with had been 1% higher/lower (2011: 1%) with all other variables held constant, post-tax profit for the year would have been EUR 544 thousand lower/higher (2011: EUR 876 thousand).

Liquidity risk

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

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

	Up to 6 months	6-12 months	1 - 3 years	3 - 5 years
Trade and other accounts payable (note 14)	9,306	-	-	-
Borrowings	33,208	17,318	46,427	-
Total	**42,514**	**17,318**	**46,427**	**-**

Comparative information at 31 December 2011 is as follows:

	Up to 6 months	6-12 months	1 - 3 years	3 - 5 years
Trade and other accounts payable (note 14)	11,360	-	-	-
Borrowings	56,222	16,935	25,774	2,038
Total	**67,582**	**16,935**	**25,774**	**2,038**

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.

33 Earnings per share

	2012	2011
Numerator		
Earnings used in basic and diluted EPS	12,771	14,391
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	31,250

(All amounts in euro thousands unless otherwise stated)

34 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	136	-	-	**136**
Tax advisory fees	-	27	-	**27**
Total	**136**	**27**	**-**	**163**

Comparative information for 2011:

	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**

35 Subsequent events

In February 2013 the Group acquired for EUR 1.5 million the assets of JSC “Syrodel”, a cheese plant located in Rylsk city of Kursk region (Russian Federation). The plant is designed to produce cheese (up to 3.5 kt/ year), whole milk products and butter. Currently, it operates at about 10% of its capacity. The products of Syrodel are mainly sold in in Kursk, Voronezh and Lipetsk regions of Russia.

Strategically, the Group will use Syrodel to produce hard and specialty cheeses for Russian market and serve as supplier of butter, cream and other products for the Group’s Ostankino Dairy Combine based in Moscow.

In January-March 2013 JSC Ostankino Dairy Combine, subsidiary of the Company, repaid short-term loans in total amount of EUR 6,711 thousand. In February and March 2013 the same subsidiary obtained new loans in the amounts of EUR 3,729 thousand and EUR 2,610 thousand with maturity in December 2014 and March 2014 respectively.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

MILKILAND N.V.
COMPANY STATEMENT OF FINANCIAL POSITION
(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Current Assets			
Cash and cash equivalents		183	2,146
Amounts due from group companies	5	84,366	41,578
Other receivables and prepayments	5	70	47
Other taxes receivable	5	6	22
		84,625	**43,793**
Fixed assets			
Goodwill	3	2,114	2,033
Investments in subsidiaries	4	171,700	146,965
		173,814	**148,998**
TOTAL ASSETS		**258,439**	**192,791**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	15,073	9,774
Loans and borrowings	8	25,542	-
Other payables	7	383	935
Other taxes payables		17	-
Current income tax liabilities		-	-
		41,015	**10,709**
Non-Current Liabilities			
Loans and borrowings	8	45,123	22,096
Other liabilities		-	127
		45,123	**22,223**
TOTAL LIABILITIES		**86,138**	**32,932**
Shareholder's equity			
Issued and paid-up share capital		3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		53,228	58,320
Currency translation reserve		(7,441)	(8,134)
Unappropriated result		74,702	57,861
Total equity	6	**172,301**	**159,859**
TOTAL LIABILITIES AND EQUITY		**258,439**	**192,791**

MILKILAND N.V.
COMPANY STATEMENT OF COMPREHENSIVE INCOME
(All amounts in euro thousands unless otherwise stated)

	Notes	2012	2011
Revenue from Group companies		700	1,073
Administration expenses	9	(1,467)	(1,455)
Other expenses		(424)	(33)
Operating loss		**(1,191)**	**(415)**
Finance income	10	5,529	617
Finance expense	10	(5,220)	(333)
Foreign exchange (loss)/gain, net		(55)	152
(Loss)/profit before tax		**(937)**	**21**
Share of profit of participating interests, after income tax		13,708	14,370
Profit for the year		**12,771**	**14,391**

Notes to the company financial statements

1. General

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

2. Significant accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e., only IFRS that is adopted for use in the EU at the date of 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 2,114 thousand (2011: EUR 2,033 thousand) 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 11in consolidated financial statements.

4. Investments in participating interests

	31 December 2012	31 December 2011
JSC Ostankino Dairy Combine, Russia	41,380	40,165
DE Milkiland Ukraine, Ukraine	120,294	106,798
LLC Milkiland N.V, Ukraine	(434)	2
Milkiland Intermarket (CY) LTD	(262)	-
MLK Finance Limited, Cyprus	145	-
Milkiland EU sp. z.o.o., Poland	10,577	-
Total investments in participating interests	**171,700**	**146,965**

Movement during the year is the following:

	2012	2011
At 1 January	146,965	103,121
Profit for the year	12,771	14,391
Currency translation differences	400	4,166
Change in revaluation reserve	-	24,962
Acquisition of minority shares in Ostankino Dairy Combine, Russia	166	88
Investments into subsidiaries	11,398	237
At 31 December	**171,700**	**146,965**

5. Receivables

	31 December 2012	31 December 2011
Amounts due from group companies		
MLK Finance Limited	79,863	-
Milkiland EU sp. z.o.o.	4,233	-
DE Milkiland Ukraine	170	33,010
Milkiland Intermarket (CY) LTD	100	-
PE Ros	-	4,819
LLC Malka-trans	-	2,677
Milkiland Corporation	-	1,072
Total amounts due from group companies	**84,366**	**41,578**
Other receivables and prepayments		
Other receivables	70	47
Total other receivables and prepayments	**70**	**47**
Taxes and social security		
Payroll related taxes	6	-
Input VAT	-	22
Total taxes receivable	**6**	**22**

At 31 December 2012 accounts receivable from MLK Finance Limited represented by EUR 79,394 thousand of loan issued to this company in October 2012 through transferring of loans previously issued to DE Milkiland Ukraine, PE Ros and LLC Malka-trans and accrued interest of EUR 468 thousand. The loan issued with interest rate of 7.8% plus LIBOR per annum.

At 31 December 2012 accounts receivable from Milkiland EU sp. z.o.o. include EUR 2,950 of loan issued to this company with interest rate of 7.8% plus LIBOR per annum, EUR 75 thousand of accrued interest and EUR 1,208 thousand of trade payables.

In December 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 2012 amounts EUR 93 thousand (2011: 28thousand).

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.

(All amounts in euro thousands unless otherwise stated)

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

	Issued and paid-up share capital	Share premium	Currency translation reserve	Revaluation reserve	Retained earnings and unappropriate result	Total
Balance as at 1 January 2011	**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**
Total comprehensive income for the year	-	-	702	(1,123)	12,771	12,350
Acquisition of minority shares	-	-	(9)	36	65	92
Realised revaluation reserve, net of income tax	-	-	-	(4,005)	4,005	-
Balance as at 31 December 2012	**3,125**	**48,687**	**(7,441)**	**53,228**	**74,702**	**172,301**

7. Trade and other payables

	31 December 2012	31 December 2011
Amounts due to Group companies		
Milkiland Corporation	14,255	9,274
LLC Milkiland N.V	593	19
LLC Milkiland Agro	48	46
LLC Torgovyi dim Milkiland	48	46
LLC Ukrainian Milk House	48	46
DE Milkiland Ukraine	46	310
LLC Milkiland Intermarket	29	28
LLC Moloko-Kraina	6	5
Total amounts due to Group companies	**15,073**	**9,774**
Other payables		
Other accounts payable	244	390
Current income tax liabilities	-	104
Wages and salaries payable	139	441
Total other payables	**383**	**935**

(All amounts in euro thousands unless otherwise stated)

Accounts payable to Milkiland Corporation include a loan received from Milkiland Corporation at the amount of EUR 3,870 thousand (2011: EUR 3,870 thousand) bearing interest rate of 3% per annum. Accrued interest as at 31 December 2012 amounts EUR 234 thousand (2011: 116). Accounts payable to Milkiland Corporation at the amount of EUR 10,150 thousand (2010: EUR 5,288 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 with interest rate 7.75% plus LIBOR per annum with maturity in December 2015 and step repayment of the loan starting from December 2012.

9. Administrative expenses

	2012	2011
Consultancy fee	188	171
Tax advisory and audit fee	79	155
Wages and salaries	942	969
Other expenses	258	160
Total administrative expenses	**1,467**	**1,455**

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

10. Finance income, net

Finance income	2012	2011
DE Milkiland Ukraine	3,960	578
MLK Finance Limited	1,448	-
Milkiland EU sp. z.o.o.	75	-
Bank deposits	46	39
Total finance income	**5,529**	**617**
Finance expense		
Bank borrowings	5,067	217
Milkiland Corporation	116	116
Other finance expense	67	-
Total finance expense	**5,220**	**333**

11. 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, 26 April 2013

O. Rozhko **A. Yurkevych** **O. Yurkevych**

V. Rekov **W. S. van Walt Meijer** **G. Heerink** **F.J. Aherne**

INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the accompanying financial statements 2012 of name Milkiland N.V., at Amsterdam as set out on pages 45 till 107. 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, 2012, 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, 2012 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, 2012 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, 2012 and of its result for the year then ended in accordance with Part9 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 sub4 of the Dutch Civil Code.

Rotterdam, 29 April 2013

BDO Audit & Assurance B.V.

on its behalf,

J.C. Jelgerhuis Swildens RA

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Milkiland: A year of building a long term growth platform

Press-release

Kyiv, 29th April 2013 – *Milkiland N.V. has published its consolidated annual report for the year 2012. The Group acquired its first EU-based asset. Sales revenue reached a historical record, while margins improved.*

Key highlights of 2012

Financials

- Financial performance: Revenue grew 3% to EUR 287 million. EBITDA 10% up to EUR 37.9 million, EBITDA margin improved to 13.2% in 2012 on the back of lower raw milk prices and re-introduction of milk subsidies in Ukraine. Net profit of EUR 13.6 million 8% down y-o-y
- Financial position: The Group's total assets declined1%y-o-y to EUR 324.4 million. Balance sheet strengthened with total debt ratio reduced from 0.49 to 0.45, net debt grew to EUR 73.1 million on the back of lower cash and cash equivalents. Net Debt/EBITDA ratio increased from 1.21 to 1.93 due to higher net debt in 2012, however stayed at a healthy level. Working capital decreased 17% from EUR 55.5 million to EUR 46.2 million
- Net cash by the year end decreased by EUR 29.3 million to EUR 23.9 million as funds were used for investments

Operations

- Raw milk prices: Partial re-introduction of the milk subsidy in Ukraine and slight increase in raw milk production triggered decline in raw milk prices. In Russia, milk production continued stagnating with prices somewhat lower on the back of cheaper feed prices
- Milk sourcing system: Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production. The share of cooperatives' milk in the total volume of raw milk collected by the Group in Ukraine exceeded 20% in 2012, well above the target set for the year. In 2012, Milkiland's in-house milk production grew 1.7 times y-o-y and comprised c. 4% of the total milk intake in Ukraine. In order to increase own production, in 2012 the Group has commenced construction of the modern 6,800 stalls milking farm scheduled for launch in Q2 of 2013
- Restrictions introduced by Russian authorities on Ukrainian cheese exports in the first half of the year resulted in a 14% drop in cheese sales in volume terms. A 10% increase in effective average price for cheese partially compensated for this drop
- Milkiland continued to implement the structural improvements in whole milk products portfolio in 2012 to increase the share of higher value-added products. Sales in thermostatic dairy grew by 18% in volume terms and by 24% in value terms. Sales in drinking yoghurt category rose by 50% in volume terms and 72% in value terms, respectively

Acquisitions

- In 2012 the Group launched its EU business, having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. Ostrowia is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15 kt p.a.), curd and processed cheese and also yoghurts
- The Group's Russian subsidiary Milkiland RU has conducted acquisition of Rylsk Dairy Plant in Kursk region (deal closed in February 2013)

Milkiland reached historically record high earnings driven by better volume sales in the WMP segment and a focus on higher value-added products. As a result, revenue grew 3% to EUR 287 million. At the same time, restrictions imposed by Russian authorities on Ukrainian cheese exports created a pressure on the Group's cheese sales resulting in a 5% decline in the cheese&butter revenues. Improving situation on the raw milk market contributed to a 10% increase in EBITDA to EUR 37.9 million with EBITDA margin of13.2%.

Milkiland appreciates the importance of quality and affordable raw milk, and therefore sets vertical integration as one of its cornerstone strategic initiatives. In order to address milk supply bottleneck, in 2012 the Group focused on development of its own dairy farming business, as well as improving long-term relations with third party suppliers. The Group's strategic goal is to secure up to 60% of raw milk supplies in Ukraine from reliable sources such as own farms and long-term partnerships with thirds party suppliers (cooperatives and farms).

In its vertical integration efforts, in 2012 the Group commenced building of its first large-scale dairy farm for 6,800 milking cows stalls. This farm is scheduled for launch in 2013 and will produce 40-50 thousand tons of raw milk annually at full capacity, securing significant share the Group's milk needs in Ukraine.

Additionally, the Group developed its existing dairy farms and achieved an increase in in-house milk production by 1.7 times over 2011. In its raw milk supply initiatives the Group also supported milk cooperatives in its milk zone, mainly providing veterinary services, financial aid and training to their members in order to secure higher milk output and quality. During 2012, the cooperatives demonstrated healthy growth, and the share of their supplies to Milkiland has increased considerably.

Geographic diversification of the business is another strategic priority for the Group, since country risks, trade barriers and logistics in Milkiland's core markets require flexibility and local presence. In order to fulfil this strategic task, the Group seeks to establish strong local divisions in Russia and neighbouring markets such as Central Europe. In pursue of its geographical diversification, in 2012 Milkiland has acquired Mazowiecka Spółdzielnia Mleczarska "Ostrowia". Ostrowia is an advanced cheese making facility capable of producing wide range of dairy products essential to Milkiland, including hard cheese, curd cheese, yoghurts and processed cheese. Ostrowia will aim to address Milkiland's core CIS markets from Poland.

Also, this acquisition allowed Milkiland to establish its footprint in EU, the largest dairy market globally. In 2012 Milkiland also conducted acquisition of cheese making facility Syrodel in Rylsk (Kursk region, Russia), designed to produce cheese (up to 3.5 kt p.a.), whole milk products and butter. The deal was closed in February 2013. The Group intends to use Syrodel to produce hard and specialty cheeses for Russian market and serve as supplier of butter, cream and other products for Ostankino.

In 2013 Milkiland intends to continue along the initiatives originated in 2012, and focus mainly on integration of the businesses acquired, and launch of the projects started in 2012. The Group plans to proceed with the reconstruction of Ostrowia cheese making plant in Poland in order to resume the production of hard cheese, which was idle before the acquisition. Additionally, it is necessary to bring Ostrowia with full compliance with the Russian and Ukrainian veterinary authorities requirements, in order to extend exports.

In agriculture, the Group in 2013 will accomplish construction of its modern dairy farm and make the facility operational. Also, Milkiland will continue its program of supporting of milk cooperatives. The Group's investment budget for 2013 ranges EUR 15-20 million. The Group also will consider acquisitions of attractive assets in target markets of Russia, Poland, Belarus or Ukraine.

Comment by Anatoliy Yurkevych, CEO, Milkiland N.V.

"2012 was a year of building a long term growth platform for the business of Milkiland. The two key strategic undertakings initiated by our company last year were acquisition of the first non-CIS business – Polish-based Ostrowia, and commencement of large-scale dairy farming business in Ukraine. Both will have long term boost for Milkiland, in terms of bottom line growth, business stability, and margins. Our outlook for 2013 is quite optimistic. We expect that dairy consumption growth will continue in our core markets, and Milkiland will be able to capture and expand its market share."

About Milkiland N.V.

Milkiland is a TOP-5 diversified dairy producer operating in Russia, Ukraine and Poland, 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 Ostankinskoye 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.

In Poland, Milkiland Group acquired Mazowiecka Spoldzielnia Mleczarska Ostrowia, the cheese production plant located in in Ostrów Mazowiecka town of Masovian Voevodeship of the Republic of Poland. 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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