Milkiland

Annual Report

2013

Contents

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

FIVE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS AND RATIOS

Consolidated statement of comprehensive income for the year ended 31 December

EUR thousands	**2013**	**2012**	**2011**	**2010**	**2009**
Revenue	340,973	287,013	279,758	256,480	200,008
Change in fair value of biological assets	1,305	934	1,859	-	-
Cost of sales	(268,810)	(209,737)	(214,101)	(161,299)	(129,975)
Gross profit	**73,468**	**78,210**	**67,516**	**95,181**	**70,033**
Operating income (expense), net	(54,276)	(56,669)	(46,481)	(60,354)	(47,831)
Operating profit	**19,192**	**21,541**	**21,035**	**34,827**	**22,202**
Net finance expense and other non-operating expense	(5,472)	(6,172)	(4,947)	(12,980)	(14,281)
Profit before tax	13,720	15,369	16,088	21,847	7,921
Income tax (expense) benefit	(2,060)	(1,808)	(1,291)	147	245
Profit for the year	**11,660**	**13,561**	**14,797**	**21,994**	**8,166**
Other comprehensive income (loss)	(11,005)	(524)	27,799	8,801	12,929
Total comprehensive income	**655**	**13,037**	**42,596**	**30,795**	**21,096**
Net profit attributable to equity holders of the parent company	**10,835**	**12,771**	**14,391**	**21,777**	**8,109**
Weighted average common shares outstanding, in thousand	31,250	31,250	31,250	25,445	25,000
Earnings per share, basic and diluted (EUR)	**34.67**	**40.87**	**46.05**	**85.58**	**32.44**

Consolidated balance sheet as at 31 December

EUR thousands	2013	2012	2011	2010	2009
Cash and cash equivalents	13,056	23,850	53,410	37,757	6,676
Trade and other receivables	62,088	48,236	28,994	22,170	21,787
Inventories	29,763	25,487	34,471	26,194	18,866
Other current assets	24,338	16,374	26,527	22,251	9,024
Total current assets	***129,245***	***113,947***	***143,402***	***108,372***	***56,353***
PPE	187,974	189,129	156,121	125,650	119,843
Deferred income tax assets	8,405	9,754	21,061	30,503	5,545
Other non-current assets	10,863	11,611	7,094	3,409	2,307
Total non-current assets	***207,242***	***210,494***	***184,276***	***159,562***	***127,695***
Total assets	**336,487**	**324,441**	**327,678**	**267,934**	**184,048**
Trade and other payables	26,948	15,120	18,430	15,529	13,576
Short-term loans and borrowings	79,284	50,526	67,153	43,764	30,986
Other current liabilities	2,510	2,104	2,369	1,376	838
Total current liabilities	***108,742***	***67,750***	***87,952***	***60,669***	***45,400***
Long-terms loans and borrowings	24,475	46,427	28,168	36,072	61,949
Deferred income tax liability	27,177	30,715	43,874	47,761	25,993
Other non-current liabilities	657	864	1,869	454	496
Total non-current liabilities	***52,309***	***78,006***	***73,911***	***84,287***	***88,438***
Total liabilities	**161,051**	**145,756**	**161,863**	**144,956**	**133,838**
Share capital	3,125	3,125	3,125	3,125	2,500
Revaluation and other reserves	79,162	94,474	98,873	71,281	18,537
Retained earnings	88,050	74,702	57,861	42,441	16,525
Total equity attributable to equity holders of the parent company	***170,337***	***172,301***	***159,859***	***116,847***	***37,562***
Non-controlling interests	5,099	6,384	5,956	6,131	12,648
Total equity	**175,436**	**178,685**	**165,815**	**122,978**	**50,210**
Total liabilities and equity	**336,487**	**324,441**	**327,678**	**267,934**	**184,048**

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

EUR thousands	2013	2012	2011	2010	2009
EBITDA	33,437	37,388	34,564	44,312	32,460
Net Debt	90,703	73,103	41,911	42,079	86,259
EBITDA Margin,%	9.8%	13.0%	12.4%	17.3%	16.2%
Net Profit Margin,%	3.4%	4.7%	5.3%	8.6%	4.1%
ROE	6.8%	7.9%	8.9%	17.9%	16.3%
ROA	3.5%	4.2%	4.5%	8.2%	4.4%
Market Capitalization	94,190	110,837	106,250	360,656	-
Enterprise Value (EV)	189,992	190,324	154,117	408,866	-
EV / EBITDA	5.68	5.09	4.46	9.23	-
EV / SALES	0.56	0.66	0.55	1.58	-
Net Debt / Equity	0.52	0.41	0.25	0.34	1.72
Net Debt / EBITDA	2.71	1.96	1.21	0.95	2.66
Net Debt / Sales	0.27	0.25	0.15	0.16	0.43
Total Debt Ratio	0.48	0.45	0.49	0.54	0.73
Debt / Equity	0.92	0.82	0.98	1.18	2.67
Current Ratio	1.19	1.68	1.63	1.79	1.24
Quick Ratio	0.91	1.31	1.24	1.34	0.83
P/E	8.69	8.68	7.38	13.48	35.58
EPS	34.67	40.87	46.05	85.58	32.44

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,

Milkiland’s development strategy in the year 2013 has proved its sustainability and materialized in strong growth of our top line. The Group’s revenue increased by 19% to c. EUR 341 million, across its three major divisions (Ukraine, Russia and EU), significantly outperforming respective markets in Russia and Ukraine.

In the fresh dairy segment Milkiland’s sales volumes expanded by 29% in Russia and 17% in Ukraine, while consumption growth in these segments was 3-5% in 2013. In stagnating cheese segment the Group managed to increase its sales volumes by 2% in Russia and 5% in Ukraine. The sales in ingredients segment accelerated by almost 50%, benefiting from upward global trends and adding innovative products (WPC-80, permeat) from the Group’s Polish subsidiary Ostrowia.

Milkiland’s revenue growth resulted from its continued strategy of value-for-money offering. Our teams in Ukraine, Russia and Poland have successfully developed products of consumer choice in our core markets. To assure high quality of our products and be able to satisfy growing demand, we initiated vertical integration program some years ago, and in 2013 launched our first modern milk farm with planned capacity of 50 kt of milk per year. Our partner milk cooperative Moloko-Kraina has strengthened in 2013, by improving its members structure and management, and set for further growth in the next years.

Our geographic footprint continues to expand. In 2013 we brought our Polish-based Ostrowia in full compliance to requirements of Russian and Ukrainian veterinary authorities and resumed full scale operations. Cheese sales to Ukraine started in fall 2013, while exports to Russia should start in H1 2014. Our next task for Ostrowia is to enjoy efficiency of scale achieving higher capacity utilization levels (22% in 2013).

In 2013 our Moscow-based Ostankino Dairy Combine delivered a healthy double-digit increase in revenues (+24% y-o-y) and proved attractive strategic prospective of our business in Russia. The redesign we made to Ostankinskoye brand in 2012-13, with innovative products and new packaging, was welcomed by our consumers, and resulted in much better conduct with our key accounts. Ostankino’s sales continue to grow, and our 2014 business plan envisions further growth, both in revenue and profitability.

Milkiland Ukraine faced some challenges from Russian exports in the second half of 2013, however, recorded 8% revenue growth compared to the previous year. In the local Ukrainian market, we captured market share both in fresh dairy and cheese. Also, our Ukrainian division managed to secure the position of #1 Ukrainian cheese exporter with a 33% share in the total export volume.

On the negative side, 2013 brought challenges on the bottom line of our business. Harsh weather conditions in world’s key milk producing regions, coupled with continued stagnation of milk farming in our core markets, has resulted in raw milk prices up 17% in Russia and 26% in Ukraine. Subsequently, Milkiland’s EBITDA in 2013 declined by c. 10% to EUR 33.4 million, representing EBITDA margin squeeze from 13% to 10% y-o-y. The Group responds to such unfavourable developments by focusing on in-house milk production, and diversifying sources of raw milk; we believe our efforts in coming years will materialize in increasing profitability and less margin volatility.

The major challenge for our Group, started in 2013 to continuing to date, is deterioration of political and economic relations between Russia and Ukraine, triggering obstacles to Milkiland’s exports to Russia. In the short term, the Group intends to address the problem by exploiting its diversified business model, capturing new export markets, and using devaluation of Ukrainian local currency to the benefit of exports from Ukraine. Also, our Polish cheese making division is ready to replace some Ukrainian volumes in Russia. In the long term, we believe that tensions between Ukraine and Russia will ease, and normal trade relations restored, to the mutual benefit of our countries.

We remain committed to strengthen the business of the Group in order to deliver a profitable growth for our shareholders and partners. Our aim is to turn Milkiland to undisputable example of value creation by striving for the development and achievement of ambitious goals in any operating environment.

Sincerely yours,

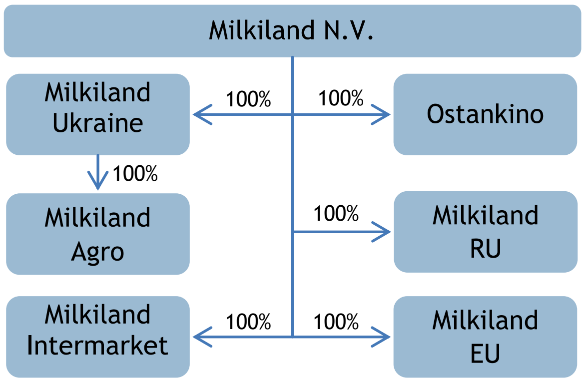
Oleg Rozhko, Chairman of the Board

Anatoliy Yurkevych, Chief Executive Officer

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS FOR THE YEAR 2013

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 a farming subsidiary of Milkiland Ukraine operating over 9,700 cattle livestock, including about 3,300 milking cows. The total land area cultivated by Milkiland Agro is about 22,400 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 February 2013, Milkiland RU finished acquisition of Rylsk Dairy Plant in Kursk region.

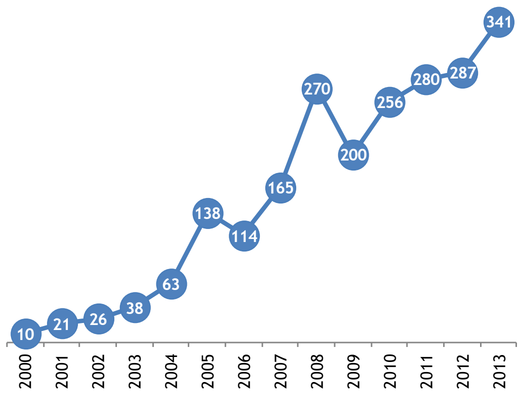
In 2012, the Group launched its EU business, having acquired Polish-based cheese plant Mazowiecka Spółdzielnia Mleczarska Ostrowia. Ostrowia is a modern cheese plant capable to produce a wide range of dairy products such as hard cheese (up to 15 kt p.a.), curd, processed cheese and yoghurts.

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

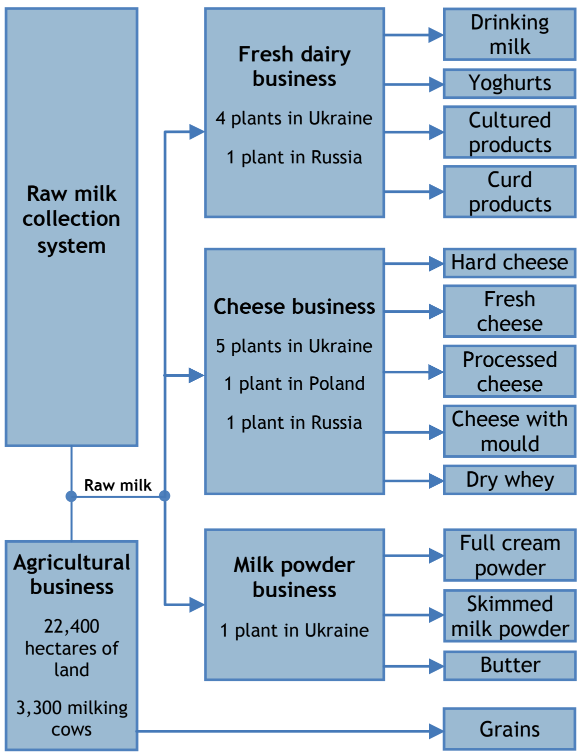
The Group's total annual milk processing capacity exceeds 1.3 million tons; product line consists of whole milk products, various types of cheese, butter, and dry milk products.

In 2013, Milkiland's consolidated revenues reached EUR 341 million, representing c. 19% growth compared to 2012 and over 31% 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 order to secure larger volumes of in-house milk, in 2012 the Group commenced construction of the modern 6,800 stalls dairy farm. The first section of new dairy farm was put in operation and filled by 1,700 milking cows. In 2013 in-house milk production dropped by 10%, due to interruptions connected with movement and adaptation of cows to the new farm. In 2013, Milkiland Agro provided for c. 4% of the Group's total milk intake in Ukraine. Upon achievement of full capacity in 2015-2016, such farm will supply 40-50 thousand tons of milk to Milkiland's processing plants.

In order to secure milk supply from third parties, especially small farms and individual farmers, Milkiland established long-term partnership with nation-wide milk cooperative "Moloko-Kraina", that from 2012 has grown to provide 23% of the Group's raw milk intake in Ukraine.

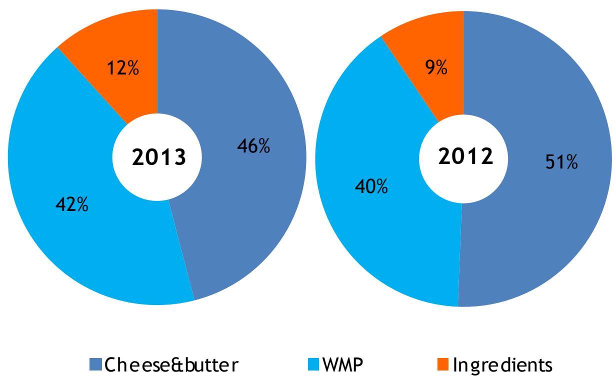
Raw milk collected by the Group is delivered to three core production streams: fresh dairy, cheese, and milk powder. This allows for flexibility and better profitability, as Milkiland can quickly switch between product lines.

Whole milk dairy and cheese are Milkiland's core product segments providing together c.88% of the Group's revenues in 2013.

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 2012-2013



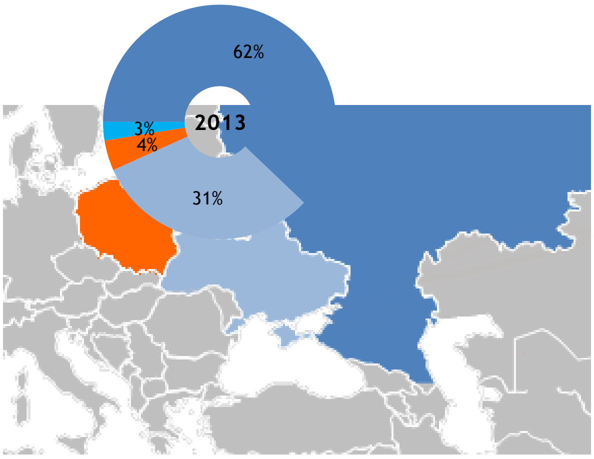
Milkiland's milk powder business has one of the largest and most efficient drying facilities in Ukraine, operating mainly in high season, when raw milk is produced in large quantities. Milk powder and butter are sold both locally and abroad to more than 30 countries worldwide. After integrating Ostrowia in 2012, Milkiland significantly improved its positions in dry milk products, since Ostrowia is equipped with state-of-the-art facilities for production of high value added products (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 12% in the total revenue in 2013.

Milkiland's consumer products are marketed mostly under key brands Dobryana, Ostankinskoye, and Ostrowia. 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. Under Ostrowia brand, the Group markets products locally in Poland.

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 2013



In terms of geographical revenue breakdown, Russia is the largest market for Milkiland contributing over 62% to the Group's total consolidated revenue in 2013. In Russia, the Group is active in whole milk products and hard cheese.

Sales in Ukraine account for about 31% of the Group's revenue and include all range of dairy products. Poland and other secured each 4% of the Group's total revenue in 2013.

Key Products, Production and Sales

According to UN Food and Agriculture Organization (FAO), global dairy market has one of the most upward growth prospects of the total food market. The key growth drivers are demands from Asian countries and Russia. In 2013, global dairy production was constrained by dry weather in New Zealand and stagnating output in the EU. The world demand, on the contrary, was growing thus fuelling a further increase in prices. Fonterra's assessment of published industry statistics indicates that global trade in dairy ingredients has grown more than 7% per annum since the financial crisis in 2008/09, reaching 13.9 million MT in 2013. Growth slowed to 2.8% in 2013 impacted by supply issues.

Russia and China (including Hong Kong) continue to lead the growth in demand accounting for 25% of total dairy imports. Since China has currently has the per capita consumption well below the world average levels, industry experts expect it to lead the global demand growth in future. Dairy imports into China are primarily milk powders, while the key import into Russia is cheese.

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.5 after China, EU, USA, and India, and a very dynamic one with strong growth fundamentals. Starting from 2013, upon launching of Ostrowia operations, the Group is also 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. At the same time, Russia has one of the highest milk prices globally, providing attractive opportunities for exporters worldwide, including Ukraine and Poland. In Russia, per capita consumption of dairy products was c. 250 kg in milk equivalent in 2013 or two thirds the level of 1990. The Dairy market is dominated by two categories, Cheese and Milk, which constitute over 60% of the Russian market by value. The third-largest product category, Yoghurt, accounts for another 20% of the market.

In Ukraine, per capita consumption of dairy products was c. 240 kg in milk equivalent in 2013 or c. 2% higher than in 2012. Drinking milk represents about half of the total dairy products consumption. Cheese and butter represent another 28% of the total dairy consumption.

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 2013 was rather favourable for whole milk product producers. Consumption demonstrated c. 5% in Russia and c. 4% growth in Ukraine in volume terms. Average prices for whole milk products by the year-end grew about 15% in Russia and 5-10% in Ukraine.

These positive trends were somewhat offset by a rise in raw milk prices. In Russia, raw milk price added 17% y-o-y, in Ukraine, 26%. In order to mitigate this increase in costs, the Group put efforts to increase selling prices in Ukrainian and Russian markets. This increase was made in line with the general market trends in both countries.

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 outperforming the market growth. Sales of WMP products in volume terms grew by 29% and 17% respectively.

In Ukraine, the key focus was made on product renovation and new products introduction under Dobryana brand. In Russia, the product portfolio was further optimized, while the Group finished rebranding of fresh dairy under renewed Ostankinskoye umbrella brand.

As a result, the Group's total revenues in the fresh dairy segment grew by c. 26% and amounted to c. EUR 144 million in 2013. The segment's EBITDA increased to EUR 12.2 million compared to EUR 11.1 million or by c. 10% on y-o-y basis.

The share of fresh dairy in the Group's consolidated revenues stood at c. 42%, 2 pp. more than in 2012.

In terms of market position, Milkiland is one of the largest players in the CIS after Pepsico's 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 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 2013, cheese market in Russia was constrained by supply, as trade restrictions imposed by government on a number of EU producers somewhat limited imports, while local cheese production stagnated. As a result, the total Russian cheese consumption decreased by c. 1% to 818,000 tons. In Ukraine, cheese consumption stabilized after rise in 2012.

Rising prices for raw milk triggered an increase in cheese prices in both countries in the second half of the year. In Russia, such increase significantly lagged behind the rise in raw milk prices, with cheese prices stable in the first half of the year. However, by December 2013 cheese prices increased by 20% on y-o-y basis. In Ukraine, cheese prices increased by 5-10% during the year 2013.

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 significantly 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, Milkiland anticipates strong demand for new types of hard cheese, as the level of sophistication of CIS consumers will advance.

In 2013, the Group reinforced its positions on the Ukrainian cheese market and became the largest exporter of Ukrainian cheese supplying, mainly to Russia, over 33% of the total Ukrainian cheese exports. Start of Ostrowia cheese exports to Ukraine also triggered the sales growth. As a result, Milkiland's cheese & butter segment revenues grew by c. 8% to EUR 156.7 million. The segment's EBITDA stood at c. EUR 18.9 million, representing a 22% annual decrease, mainly due to higher raw milk prices. EBITDA margin decreased from 15% in 2012 to 12% in 2013.

The Group feels particularly strong in the cheese segment and plans 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. In 2013, the Group fulfilled its strategic initiative to modernize its Polish asset Ostrowia in order to bring it in full compliance with Russian and Ukrainian veterinary requirements and resume full scale production. In the second half of 2013, Milkiland received a permission of the Ukrainian authorities to export Ostrowia cheese to Ukraine. In H1 2014, the Group plans to get such permission from the authorities of Customs Union of Russia, Belarus and Kazakhstan.

Milkiland expects to "catch the wave" of the success of Polish cheese makers, who managed to increase their exports to these countries in of 2013 by c. 50% in Russia and c. 30% in Ukraine in value terms.

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 in 2013 a short but severe drought in New Zealand, uneven weather conditions in Argentina and cold spring weather in the EU coupled with high feed prices negatively impacted the global milk supply. This, coupled with growing world demand, triggered a further growth in global dairy prices.

Globally, the demand for commodity dairy products is rising, as East Asian countries are actively introducing dairy diet to their population, though cannot develop sufficient local supply due to unfavourable conditions for dairy farming. In 2013, China was a key driver for growing demand globally. China's increased purchases of dairy products tightened the rest of the market. Chinese imports of skimmed milk powder (SMP) have been growing impressively averaging 32 percent growth over the 2009-2012 periods and China in 2013 became the largest single import market for SMP.

This demand has been particularly impressive since prices for such commodities as whole milk powder (WMP) increased from about $3,300 per ton (Oceania FOB) in early January to over $5,000 per ton in December. This has been similarly true for SMP which over the same time span increased from around $3,400 per ton to $4,600 per ton. As a result, the global dairy market finished the year 2013 with record-high farm-gate prices across most of the producing countries.

The FAO international dairy products price index (2002–2004=100) rose steadily throughout the year from 204.9 in January to peaking 264.1 in December 2013. Prices strengthened for all the products that constitute the index.

In 2013, the Group capitalised on these trends and increased its sales of ingredients in volume and value terms. This growth was achieved due to successful sales of high value added products (WPC-80, permeate) by Ostrowia, as well as a sharp rise in prices.

As the result, Milkiland's revenues in this segment rose by 46% and amounted to EUR 39.9 million. Ingredients sales contributed EUR 5.0 million of EBITDA, representing 13% EBITDA margin (EUR 3.3 million and 12% respectively in 2012).

Financial Performance and Financial Position

The Table below provides selected financial data as of and for the twelve months ended 31 December 2013 and 2012 in thousands Euro.

Selected financial data

	2013	2012
I. Revenues	340,973	287,013
II. Operating profit	19,192	21,541
III. Profit before tax	13,720	15,369
IV. Net profit	11,660	13,561
V. Cash flows provided by operating activities	4,819	17,921
VI. Cash flows used in investing activities	(21,306)	(49,551)
VII. Cash flows provided by financing activities	6,764	2,284
VIII. Total net cash flow	(9,723)	(29,346)
IX. Total assets	336,487	324,441
X. Current liabilities	108,742	67,750
XI. Non-current liabilities	52,309	78,006
XII. Share capital	3,125	3,125
XIII. Total equity	175,436	178,685
XIV. Weighted average number of shares	31,250	31,250
XV. Profit (loss) per ordinary share, EUR cents	34.67	40.87

Income Statement

Summary statement of comprehensive income, '000 EUR

	2013	2012
Revenue	340,973	287,013
Change in fair value of biological assets	1,305	934
Cost of sales	(268,810)	(209,737)
Gross profit	**73,468**	**78,210**
Operating income (expense), net	(54,276)	(56,669)
Operating profit	**19,192**	**21,541**
Net finance expense and other non-operating expense	(5,472)	(6,172)
Profit before tax	13,720	15,369
Income tax expense	(2,060)	(1,808)
Net profit	**11,660**	**13,561**
Other comprehensive loss	(11,005)	(524)
Total comprehensive income	**655**	**13,037**
Net profit attributable to equity holders of the parent company	**10,835**	**12,771**
Weighted average number of shares (in millions), as of December 31	31,250	31,250
Earnings per share, basic and diluted (EUR cents)	**34.67**	**40.87**

Revenue

In 2013, the Group's revenue grew c.19% to the record-high level of EUR 341.0 million, owing to better sales volumes and price developments. In order to partially offset the rising costs and support the profitability of the business, in 2013 the Group put efforts to increase selling prices in Ukrainian and Russian markets. This increase was made in line with the general market trends in both countries.

The table below sets forth an overview of the revenue generated by the Group in 2012 and 2013 by product group.

Breakdown of the Group's consolidated revenue by product in 2013-2012

	2013		2012		2013 vs. 2012	
	Revenue ('000 EUR)	Share in total (%)	Revenue ('000 EUR)	Share in total (%)	'000 EUR	%
Cheese & butter	156,654	45.9%	145,274	50.6%	11,380	7.8%
Whole milk products	144,449	42.4%	114,667	40.0%	29,782	26.0%
Ingredients and other	39,870	11.7%	27,072	9.4%	12,798	47.3%
Total	**340,973**	**100.0%**	**287,013**	**100.0%**	**53,960**	**18.8%**

Sales of cheese and butter increased by 8% y-o-y to EUR 156.7 million, an achievement of both volume and price advance. Effective average prices for cheese in 2013 were higher by 3% in Russia and 4% in Ukraine. In volume terms, the Group added due some exports restoration after 2012 Russian import limitations, and start of cheese operations at Ostrowia.

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

Sales of whole milk products grew 26% y-o-y to EUR 144.4 million on a back of better sale volumes in Russia and Ukraine, and represented approx. 42% of the total consolidated revenue in 2013 vs. approx. 40% in 2012. For more information on whole milk production and sales, refer section *Key Products, Production and Sales*.

Sales in the Ingredients segment grew by 47% to EUR 39.9 million due to favourable global markets. The Group enjoyed an increased demand for dry milk products including skimmed milk powder, permeate and WPC-80. For more information on Ingredients production and sales, refer section *Key Products, Production and Sales*.

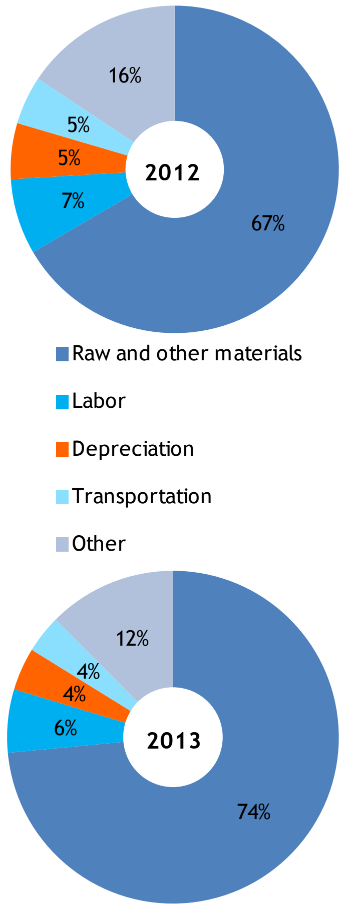
Cost of sales

The Group's consolidated cost of sales grew 28% to EUR 268.8 million, the main driver was 41% rise in raw materials costs (from EUR 139.7 million to EUR 197.6 million), mainly due to higher raw milk prices, as well as increased volume sales.

Growing world demand, combined with milk production slowdown in several major regions and stagnating milk farming in Russia and Ukraine, led to a sharp milk prices rise in 2013. Raw milk production in Russia decreased by 4%, resulting in a 17% price rise. In Ukraine, the price spike was even higher, at 26% y-o-y. For more information on milk markets, refer section *Key Products, Production and Sales*.

In 2013, Milkiland continued its downward integration aimed to secure raw milk supplies in Ukraine, including supporting milk cooperatives and developing in-house milk production. The Group continued cooperation with National Milk Cooperative Moloko-Kraina (a nation-wide cooperative that united a number of smaller cooperatives supported previously by the Group). The first section of a new dairy farm was put in operation and filled by 1,700 milking cows. In 2014, Milkiland plans to increase in-house milk production by 40%.

The Group's cost of sales structure in 2012-2013



In 2013, labour costs grew 6% to EUR 16.5 million after starting of cheese production at Ostrowia and Rylsk operations. Social insurance contributions increased accordingly. Depreciation and transportation costs were mainly stable. Gas and electricity costs grew as a response to growing production and sale volumes. Increased inventories of finished goods and work in progress at Ostrowia and Ostankino resulted in EUR -3.1 million in the costs of sales.

Breakdown of the Group's cost of sales in 2013-2012, '000 EUR

	2013		2012	
	Amount ('000 EUR)	Share in consolidated revenue, %	Amount ('000 EUR)	Share in consolidated revenue, %
Raw and other materials	197,571	57.9%	139,687	48.7%
Wages and salaries	16,540	4.9%	15,604	5.4%
Depreciation	11,150	3.3%	11,523	4.0%
Transportation costs	9,962	2.9%	9,997	3.5%
Gas	10,100	3.0%	9,271	3.2%
Other	23,487	6.9%	23,655	8.2%
Total	**268,810**	**78.8%**	**209,737**	**73.1%**

Gross profit

As a result of increasing raw milk costs, Milkiland's gross profit decreased by 6% y-o-y to EUR 73.5 million. Gross profit margin decreased from 27.2% in 2012 to 21.5% in 2013.

Selling and distribution expense

The Group's selling and distribution expenses increased by 10% from EUR 26.2 million in 2012 to EUR 28.8 million in 2013 and represented 8.5% in the consolidated revenue in 2013 vs. 9.1% in 2013. The share of selling and distribution expenses in the total revenue shrank as a result of management efforts aimed at cost control. Transportation costs, the major component (38% of the S&D expense in 2013 and 43% in 2012), was practically stable (- 1% y-o-y) and stood at c. EUR 11 million, due to a change in the delivery terms from DDU to FCA for some customers.

Increase in labour costs due to a rise in sales and a consecutive rise in payments to sales personnel (by 13% y-o-y), as well as security and other services costs (by 19% y-o-y) contributed to an increase in the selling and distribution expenses. The latter represent, *inter alia*, costs associated with additional customs checks at Russian borders after introduction of strict customs procedures for all Ukrainian exports.

Administrative expense

The Group's administrative expenses grew from EUR 27.7 million in 2012 to EUR 31.9 million in 2013, representing 9.3% in the consolidated revenue in 2013 vs. 9.6% in 2012. A 20% rise in labour costs is associated with the acquisition and establishment of new subsidiaries in Poland, Russia and Kazakhstan. For more information on new subsidiaries refer section *Material Events*. Social insurance contributions grew in line with the wages and salaries. 51% increase in consulting fees is also associated with the Group's expansion.

Other expenses, net

In 2013, the Group received EUR 6.4 million other operating income instead of EUR 4.1 million other expenses in 2012. The key reason for this is a decrease in write off and change in provision for VAT resulted by improved VAT reimbursement by the Ukrainian Government. A positive change in provision and write off of trade and other accounts receivable is associated with a decrease in past due and impaired debts compared to 2012. These positive changes were somewhat offset by a decrease in government grants recognized as income representing special VAT procedures on agricultural operations and government subsidies to dairy farmers due to a cut in government expenditures on dairy farming. The 2012 result also included one-off acquisition-related costs of EUR 1.3 million (2013: 0).

Operating profit and EBITDA

Despite optimization in operating costs, higher costs of sales due to increase in raw milk prices resulted in 11% decrease in the Group's operating profit to EUR 19.2 million and in an 11% decrease in the consolidated EBITDA to EUR 33.4 million. EBITDA margin was depressed from 13.0% to 9.8% in 2013.

Finance expense

The Group's finance expenses increased by 18% to EUR 11.2 million in 2013 compared to EUR 9.5 million in 2012 as the Group's loan portfolio grew. Finance income grew 72% to EUR 5.7 million.

As a result, the net finance expense and other non-operating expense decreased by 11% y-o-y from EUR 6.2 million to EUR 5.5 million.

Profit before tax and Profit for the year

As a result of decreased operating profit, the Group's profit before tax decreased by 11% y-o-y to EUR 13.7 million. The Group's net profit decreased by 14% to EUR 11.7 million. The net profit margin constituted 3.4% vs. 4.7% in 2012.

Financial Position

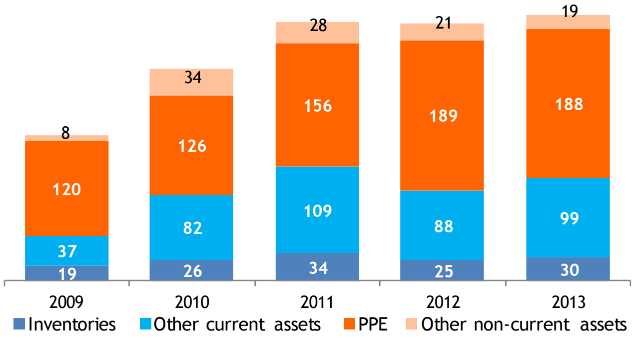
Summary balance sheet as at December 31, ‘000 EUR

	2013	2012
Cash and cash equivalents	13,056	23,850
Trade and other receivables	62,088	48,236
Inventories	29,763	25,487
Current biological assets	7,538	5,420
Current income tax assets	19	204
Other taxes receivable	16,781	10,750
Total current assets	***129,245***	***113,947***
Goodwill	3,426	3,485
PPE	187,974	189,129
Non-current biological assets	4,102	3,296
Other intangible assets	3,335	3,824
Deferred income tax assets	8,405	9,754
Other non-current assets	-	1,006
Total non-current assets	***207,242***	***210,494***
Total assets	**336,487**	**324,441**
Trade and other payables	26,948	15,120
Current income tax liabilities	239	534
Other taxes payable	2,271	1,570
Short-term loans and borrowings	79,284	50,526
Total current liabilities	***108,742***	***67,750***
Long-term loans and borrowings	24,475	46,427
Deferred income tax liability	27,177	30,715
Other non-current liabilities	657	864
Total non-current liabilities	***52,309***	***78,006***
Total liabilities	**161,051**	**145,756**
Share capital	3,125	3,125
Share premium	48,687	48,687
Revaluation reserve	48,752	53,228
Currency translation reserve	(18,277)	(7,441)
Retained earnings	88,050	74,702
Total equity attributable to equity holders of the parent company	***170,337***	***172,301***
Non-controlling interests	5,099	6,384
Total equity	**175,436**	**178,685**
Total liabilities and equity	**336,487**	**324,441**

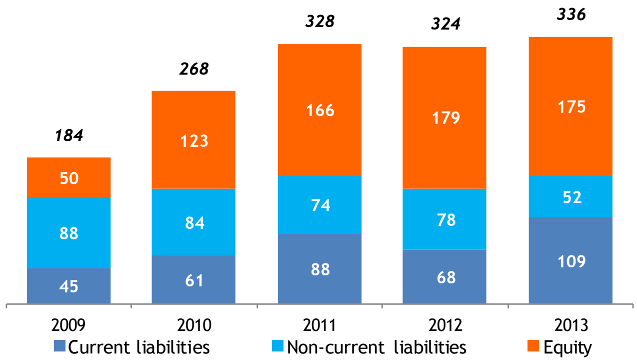
Capital structure and solvency analysis information

	2013	2012
Total debt ratio	0.48	0.45
Debt to equity ratio	0.92	0.82
Net debt/EBITDA	2.71	1.96
Net debt/sales	0.27	0.25

Assets structure in 2008-2012, '000 EUR



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



Assets

The Group's total assets increased by 4% from EUR 324.4 million as of December 31, 2012, to EUR 336.5 million as of December 31, 2013.

During 2013 cash and cash equivalents decreased from EUR 23.9 million to EUR 13.1 million (45%), reflecting the Company's investments in Polish Ostrowia, Ukrainian agricultural operations development and other corporate needs.

Start of cheese production in Poland in mid-2013 contributed to an increase in the Group's inventories, which were at a low level on December 31, 2012. Accounts receivable increased by 29%, to EUR 62.1 million, over the year. Total trade accounts receivable grew by 28% to EUR 47.1 million partially due to the introduction of strict customs procedures on the Russian border. The Group subsidiaries should pay full customs tariffs and taxes on goods exported to Russia as if they were imported from countries not falling into free trade agreements with Russian Federation. After Ukrainian origin of the goods is proved, the extra payments were reimbursed to the payer. For the period these payments are not reimbursed they are accounted for as payables.

Other taxes receivable comprise mainly export VAT receivable from the Ukrainian government. In 2013, VAT receivable grew by 56% due to an increase in export sales.

Non-current assets decreased by 2% to EUR 207.2 million mainly due to the revaluation of Russian Rouble in late 2013.

Current assets represented 38% of the total assets, non-current assets, 62% (35% and 65% respectively as of December 31, 2012).

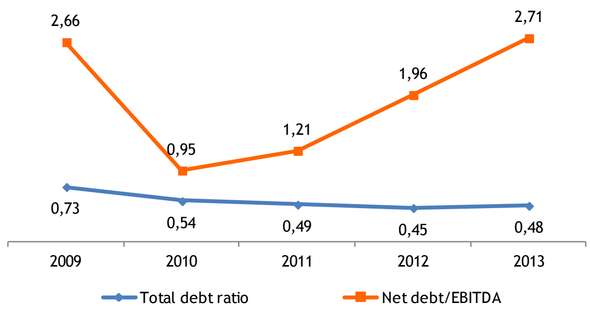
Liabilities and equity

The Group's total liabilities increased by 10% over 2013, from EUR 145.8 million to EUR 161.1 million as of December 31, 2013. Current liabilities grew 61% to EUR 108.7 million, while non-current liabilities dropped by 33% to EUR 52.3 million. Such changes in liabilities breakdown were due to increase in trade payables and reclassification of some part of long-term loans and borrowings into short-term loans, which are due within less than 12 months. The average interest rate for short-term loans fell from 10.55% to 10.35%, for long-term loans from 10.83% to 10.56%.

Net debt of the Group stood at EUR 90.7 million as of December 31, 2013. Total Debt Ratio constituted 0.48 vs. 0.45 in 2012. Net Debt/EBITDA ratio increased from 1.96 to 2.71 due to higher net debt in 2013, however stayed at 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 2009-2013



More than doubled currency translation reserve (EUR -18.3 million on December 31, 2013 vs. EUR -7.4 a year ago) contributed to c. 2% decrease in the Group's total equity.

Current liabilities represented 32% of the total equity and liabilities, non-current liabilities 16%, and equity 52% as of December 31, 2013 (21%, 24%, and 55% respectively in 2012).

Decrease in the Group's net profit led to a decline in its ROE from 8% to 7%. At the same time, ROA decreased from 4% to 3%.

Decrease in the Group's cash and cash equivalents and increase in payables, as well as short-term loans and borrowings led to a lower working capital, which decreased 56% from EUR 46.2 million to EUR 20.5 million. At the same time, the Group's cash ratio fell from 0.35 to 0.12 in 2013.

Increase in the current liabilities due to the growth of short-term loans led to decrease in the current and quick ratios to 1.2 and 0.9 respectively.

Over 2013 the Group's average operating cycle improved to 60 days from 67 days, due to higher value of accounts payable.

Balance sheet items and liquidity analysis

Ratios	Definitions	2013	2012
Production and inventory cycle, days	Average inventory to sales revenue times number of days in the period	29.57	32.41
Average collection period, days	Average trade receivable to sales revenue times number of days in the period	59.05	61.34
Average payment period, days	Average trade payables to cost of sales times number of days in the period	28.56	26.31
Average operating cycle (cash conversion period), days	Total of average production and inventory cycle and average collection period less average payment period	60.06	67.44
Working capital, '000 EUR	Current assets less current liabilities	20,503	46,197
Current ratio	Current assets to current liabilities	1.19	1.68
Quick ratio	Current assets less inventories to current liabilities	0.91	1.31
Cash ratio	Cash and cash equivalents to current liabilities	0.12	0.35
ROE, %		6.8%	7.9%
ROA, %		3.5%	4.2%

Summary cash flow statement

	2013	2012
Cash flow from operating activities:		
Operating cash flows before working capital changes	30,607	43,820
Changes in assets and liabilities, net	(14,267)	(13,850)
Cash provided by (used in) operations:	(11,521)	(11,509)
Net cash from operating activity	**4,819**	**17,921**
Investing activities:		
Proceeds from sale of property, plant and equipment	100	174
Acquisition of property, plant and equipment	(20,918)	(34,548)
Acquisition of subsidiaries, net of cash acquired	(488)	(14,146)
Increase of other non-current assets	-	(1,031)
Net cash from investment activity	**(21,306)**	**(49,551)**
Financing activities:		
Acquisition of non-controlling interest	(1,416)	(165)
Commission paid	(109)	(2,202)
Dividends paid	(2,500)	-
Proceeds from borrowings	71,437	91,676
Repayment of borrowings	(60,648)	(87,025)
Net cash from financial activity	**6,764**	**2,284**
Net increase in cash	**(9,723)**	**(29,346)**
Effect of exchange rate changes on cash and cash equivalents	(1,071)	(214)
Cash at beginning of the period	23,850	53,410
Cash at the end of the period	**13,056**	**23,850**

Net cash at the end of the period decreased 45% to EUR 13.1 million due to a sharp decrease in net cash from operating activity. 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 2013 and Sources of their Financing

In 2013, the Group's key investments were addressed to modernization of its Polish cheese making subsidiary Ostrowia (EUR 5.2 million), reconstruction of the production assets of Russian subsidiaries Ostankino and Syrodel (EUR 2.0 million and EUR 0.5 million, respectively). Another EUR 13.0 million were invested also invested into modernization of its processing plants and development of the agricultural operations in Ukraine.

The following table represents the Group's key investments in 2009 through 2013 by type.

Key investments in 2009 through 2013, thousands of Euros

	2013	2012	2011	2010	2009
Property, plant and equipment	20,918	34,548	5,552	6,327	2,190
Acquisition of associates and subsidiaries	488	14,146	5,305	7,540	-
Total investments	**21,406**	**48,694**	**10,857**	**13,867**	**2,190**

Last year's investments were financed mainly from operational cash flows and loan financing from Ukrainian, Russian and Polish banks. For more details on the Company's financial arrangements in 2013, refer to section *Material Factors and Events*.

Investment Plans for 2014 and Sources of their Financing

The Group's investment program for 2014 is planned in the range of EUR 9-10 million, and will mainly focus on strategic initiatives started in 2013. Namely, Milkiland will further invest in modernization of the production facilities in Russia and Ukraine, development of the agricultural operations of the Group aimed at the increase of in-house milk production. For more information refer to sections *Fulfilment of Strategy in 2013* and *Strategic Outlook for 2014.*

In 2014 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, 2013, 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, 2013

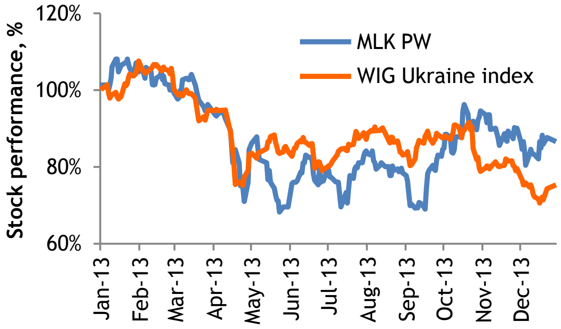
Shareholder	Number of shares	Percentage of owned share capital	Number of votes at the General Meeting	Percentage of votes at the General Meeting
1, Inc. Cooperatief U.A.	22,973,588	73.52%	22,973,588	73.52%
R-Assets Cooperatief U.A.	1,562,800	5.00%	1,562,800	5.00%
Aviva Otwarty Fundusz Emerytalny	1,793,479	5.74%	1,793,479	5.74%
Other shareholders	4,920,133	15.74%	4,920,133	15.74%
TOTAL	**31,250,000**	**100.0%**	**31,250,000**	**100.0%**

Share Price Performance

In 2013, Milkiland share price was volatile due to a number of adverse political and economic factors. International sentiment about Ukraine stayed pessimistic, though improving as DFTA between the EU and Ukraine had been planned for signing in November. 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.

Some Group-specific factors added to this pessimism, including growing raw milk prices and strict customs procedures on the Russian border. Positive news on obtaining permission for cheese exports by Polish-based Ostrowia to Ukraine improved investor views on the Group's perspectives in the second half of the year. As a result, Milkiland's shares outperformed WIG Ukraine index and on December 31, 2013, Milkiland was trading with Price/Earnings'13 and EV/EBITDA'13 of 8.7x and 5.5x respectively.

Share price performance of Milkiland N.V.



Source: Bloomberg

Milkiland N.V. significant stock quotation data, 2013-2012

	2013	2012
Opening price (PLN)	14.12	14.42
Highest trading price (PLN)	15.88	21.24
Lowest trading price (PLN)	9.75	13.03
Closing price (PLN)	12.5	14.5
Closing price (EUR)	3.01	3.55
Stock performance (absolute)	-13.40%	0.55%
Stock performance (relative to WIG)	-20.30%	-21.50%
Common shares outstanding (million)	31.25	31.25
EPS (EUR cents)	34.67	40.87
Price / earnings (P/E) as of December 31	8.7x	8.7x

	2013	2012
Market capitalization as of 31 December (PLN million)	390.6	453.1
Market capitalization as of 31 December (EUR million)	94.2	110.9
Net debt (EUR million)	90.7	73.1
EV (EUR million) as of December 31	184.9	183.9
EV / EBITDA as of December 31	5.5x	4.9x
Free float (PLN million)	83.9	101.5
Free float (EUR million)	20.2	24.8
Average daily turnover (PLN thousand)	141.3	322.9
Average daily turnover (EUR thousand)	33.7	78.99

Source: Bloomberg, management estimates

Management and Personnel

Composition of the Company's Board

As of December 31, 2013, 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);
- Olga Yurkevich (Executive Director, Chief Operation Officer);
- Vyacheslav Rekov (Non-Executive director, member of the Audit Committee);
- Willem S. van Walt Meijer (Non-Executive director, Chairman of the Audit Committee);
- George Logush (Non-Executive director);
- Vitaliy Strukov (Non-Executive director).

On June 21, 2013, the General Meeting of Shareholders of Milkiland N.V. appointed Mr. G.C. Logush and Mr. V. Strukov as Non-Executive directors of the Company. Directors Mr. F. Aherne and Mr. G. Heerink resigned from the Board of Directors due to end of their 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 73.5% of the Company's shares, and Mr. Vyacheslav Rekov, who indirectly holds 5.0% 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, 2013, Milkiland employed 7,965 people. Out of them, 42 specialists were employed in LLC "Milkiland N.V.", the head company of the Group in Kiyv. Another, 175 persons found an occupation in the head office of Ukrainian subsidiary of the Group, Milkiland-Ukraine.

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 (4,055 people, including 1,024 people in Milkiland Agro and its subsidiaries).

Developing Polish business of the Group required to hire the additional managerial specialists to Milkiland EU, the head company of the Group in Warsaw. The amount of personnel here increased to 29 specialists by the end of 2013. At the same time, the number of working personnel occupied by the Polish production facility "Ostrowia" cheese production plant increased to 183 people.

The Group's Russian head-company Milkiland's RU and Moscow-based Ostankino dairy combine employed 16 and 844 people, respectively.

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 3.5% of top managers, 6.8% other managerial stuff, and about 15.6% is service staff. The remaining 74% 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 2013, the internal and external training programs were developed for the key jobs. 2,706 employees or more than one third of the Group's employees were trained. Production and technical employees were trained under staff development programs focusing on production safety and quality management. All new employees completed skill development on-boarding programs.

Corporate Social Responsibility

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 2013, 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 2013 addressed the most vulnerable people such as orphans and children with special needs.

Since 2012, Milkiland is one of the initiators and an active member of the national program *3 Dairy Products per Day*. Leading Ukrainian and international dairy producers support this program promoting health benefits of dairy products among Ukrainians. In 2014, program participants plan to expand their educational activities to schools.

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, in 2013 Milkiland welcomed children from all over Ukraine at its production facilities. During 14 site visits, children saw 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 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 2013 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 to supply dairy to kindergartens, schools, and other social institutions.

The major distributors of Group's products in its home markets are X5 Retail, Metro, and Fozzi.

Export Permissions

In September 2013, Ostrowia, a Polish-based production unit of Milkiland, obtained export permission for exporting cheese and dairy products to Ukraine. The sales of Ostrowia cheese in Ukraine started in the 4th quarter 2013.

Acquisition of subsidiaries

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. The plant is designed to produce cheese (up to 3.5 kt p.a.), whole milk products and butter. At the end of 2013, Syrodel operated at about 12% of its capacity. The products of Syrodel are mainly sold in Kursk, Voronezh and Lipetsk regions of Russia.

Strategically, Milkiland intends to use Syrodel to produce hard and specialty cheeses for Russian market and supply butter, cream and other products for the Group's Moscow-based Ostankino Dairy Combine.

During 2013 Milkiland focused on launch of operations and efficiency increase. Initial investments and repairs in 2013 amounted to c. EUR 0.5 million. In years to come, Milkiland will consider in-depth modernization of the plant.

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

New subsidiaries

During the year ended 31 December 2013, the Group finalized registration of new subsidiaries LLC Kursk-Moloko in Russia and LLC Milkiland-Kazakhstan in Kazakhstan.

Acquisition of agricultural subsidiaries

In 2013 the Group acquired 97.0% shares in JSC Sosnitsky Rajagrohim, a farm that is expected to contribute to the development of the Group's stable and cost-efficient internal milk supply.

Reorganization of Milkiland-Agro

In order to streamline structure of the Group's agricultural division, Milkiland in 2013 merged its subsidiaries LLC Moloko Polissia, LLC Batkivschyna, PE Agro PersheTravnya, LLC Zemledar 2020 and PAE Dovzhenka with its key units LLC Uspih-Mena (former LLC Feskivske) and ALLC Nadiya.

Acquisition of additional shares in Ostankino Dairy Combine

In June 2013 the Group finalized acquisition of 4.15% interest in JSC Ostankino Dairy Combine from minority shareholders, for the total price of EUR 1,415 thousand. As a result, the Milkiland became 100% owner of Ostankino.

Financing arrangements

Credit Agricole Bank facilities

On December 4, 2013 a Loan agreement was signed between PJSC "Credit Agricole Bank", the Ukrainian subsidiary of Credit Agricole Group, and DE "Milkiland Ukraine" together with its agri-subsidiaries ALLC Nadiya", PJSC "Iskra", LLC "Uspih-Mena".

The agreement is aimed to provide a loan financing to DE "Milkiland-Ukraine" and its subsidiaries in total amount up to USD 15 million. It has come into force on 24 February 2014.

The financing comprises a credit for 5 years with 8-month grace period in amount of USD 7.5 million and the credit line for 3 years with a limit up to USD 7.5 million.

The financing is secured by pledge of assets and goods of DE "Milkiland Ukraine" and its subsidiaries.

Bank Forum facilities

On March 31, 2013 PJSC "Bank Forum" and DE "Milkiland Ukraine" entered into the loan agreement with a limit of USD 5.0 million maturing on 31 March 2015. The loan was secured by pledge of the property and assets of DE "Milkiland Ukraine" subsidiaries.

PUMB facilities

On June 14, 2013 PJSC "PUMB" and DE "Milkiland Ukraine" entered into the loan agreement with a limit of USD 15.0 million maturing 14 June 2015. The loan was secured by mortgage of property of DE "Milkiland Ukraine" subsidiaries and pledge of the finished goods.

Ukrsibbank facilities

On July 27, 2013 PJSC "Ukrsibbank" and DE "Milkiland Ukraine" entered into the loan agreement with a limit of USD 5.0 million maturing 24 July 2014. The loan was secured by pledge of the finished goods.

Moscow Industrial Bank facilities

On February 21, 2013 Ostankino and Joint Stock Moscow Industrial Bank entered into the one-year loan agreement with the indication of the amount of credit line therein up to the limit of RUR 150 million (EUR 3.5 million). The loan was secured by a mortgage of real estate.

On April 17, 2013 Ostankino and Joint Stock Moscow Industrial Bank entered into the one-year loan agreement with the indication of the amount of credit line therein up to the limit of RUR 150 million (EUR 3.5 million). The loan was secured by a mortgage of real estate.

Garanti Bank facilities

On March 15, 2013 Ostankino and Closed Joint Stock Company "Garanti Bank – Moscow" entered into one-year blank loan agreement on the opening of credit line with maximum limit of RUB 150 million (EUR 3.5 million)

Bank of Moscow facilities

On March 22, 2013 Ostankino and Bank of Moscow entered into the one-year blank loan agreement on the opening of credit line with maximum limit of RUB 150 million (EUR 3.5 million).

On May 30, 2013 Ostankino and Bank of Moscow entered into the the one-year loan agreement on the opening of credit line with maximum limit of RUB 250 million (EUR 5.9 million). The loan was secured by a mortgage of real estate.

Credit Europe Bank facilities

On September 13, 2013 Ostankino and Closed Joint Stock Company Credit Europe Bank entered into a short-term blank loan agreement with the indication of the amount of credit line therein up to the limit of RUR 150 million (EUR 3.5 million).

VTB facilities

On July 8, 2013 Ostankino and Joint Stock Company "Bank VTB" entered into a three-year loan agreement with the indication of the amount of credit line therein up to the limit of RUR 200 million (EUR 4.7 million). The loan was secured by a mortgage of real estate.

On December 20, 2013 Ostankino and Joint Stock Company "Bank VTB" entered into a three-year loan agreement with the indication of the amount of credit line therein up to the limit of RUR 100 million (EUR 2.3 million). The loan was secured by a mortgage of real estate.

Sberbank facilities

On December 18, 2013 Ostankino and Open Joint Stock Company "Sberbank of Russia" entered into a three-year blank loan agreement with the indication of the amount of credit line therein up to the limit of RUR 500 million (EUR 11.8 million).

Bank Pekao and Pekao Leasing facilities

On 19 and 27 June of 2013 Milkiland EU and Pekao leasing entered into an operational leasing agreement with the total sum of a financing of PLN 14.2 million (EUR 3.3 million) to supply of the hard cheese and other dairy production technological equipment for Ostrowia. The term of the financing was 60 months.

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, 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.

Mr. Vyacheslav Rekov, a member of the Company's Board of Directors, has informed the Company that the person closely associated with him, R-Assets Cooperatief U.A. (the "Cooperatief"), with its registered office in

Amsterdam, the Netherlands, purchased 62,800 shares of the Company. Purchase transactions were made on 17-18 June 2013. Price of 1 share was PLN 12.20. After the transaction, the Cooperatief held 1,562,800 shares of the Company that constituted 5.001% of the Company's share capital and corresponded to 1,562,800 votes or 5.001% of the voting rights on the General Meeting of Shareholders.

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

On July 25, 2013 Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE"), with its registered seat in Warsaw, Poland, notified the Company on holding of shares constituting more than 5% of the total number of votes at the General Meeting of the Company. Due to the purchase transactions made on 24 July, 2013 the total number of the Company's shares owned by the Aviva OFE has increased and the threshold of 5% of total number of votes in Company has been exceeded.

On July 24, 2013, Aviva OFE held 1,793,479 (one million seven hundred ninety-three thousand four hundred and seventy-nine) shares of the Company that constituted 5.74% of the Company's share capital and corresponded to 1,793,479 (one million seven hundred ninety-three thousand four hundred and seventy-nine) votes or 5.74% of the voting rights on the General Meeting of Shareholders.

Changes to the Board of Directors

In 2013, 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 Ukraine

On 22 October, 2013, Mr. Andriy Strilets was appointed at the position of the CEO of DE "Milkiland Ukraine", a subsidiary of the Company which controls the Milkiland Group assets in Ukraine.

Andriy Strilets has a broad top-manager experience of running of different businesses in Ukraine. In particular, he held the positions of CEO at Inkerman International, a leading Ukrainian wine making group (2010-2013), as well as the First National Wine Making Holding (2007-2010).

He holds a full P&L responsibility for DE "Milkiland Ukraine" operations and is responsible for strategic development of the Group's business in Ukraine.

Mr. Strilets graduated from the International Centre for Privatization and Management of National Kyiv Mohyla Academy (1999-2000) and holds a diploma from the Kyiv Engineering and Construction Institute (1992).

Material factors and events after the reporting date

Export Permissions Obtainment

In March 2014, Ostrowia, a Polish-based subsidiary of Milkiland Group, obtained export permission for exporting cheese and dairy products to the Customs Union of Russia, Belarus and Kazakhstan. Ostrowia cheese making plant has been included to the Resister of the legal entities and individuals performing the production, processing and/or storage of controlled goods, which could be supplied to the territory of the Customs Union.

Restrictions for Ukrainian Dairy Exports to Russia

On April 7 Federal Service for Supervision of Consumer Rights Protection and Human Well-being of the Russian Federation (Rospotrebnadzor) limited dairy imports of several Ukrainian producers, including Milkiland's Okhtyrka cheese combine.

Milkiland had faced similar temporary limitations in early 2012, which were lifted after several months of investigation. The Group intends to discuss Rospotrebnadzor's allegations openly, and prove high quality of its products.

Fulfilment of Strategy in 2013 and Outlook for 2014

Strategic priorities

Milkiland's strategic goal is to become an international 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 of CIS dairy market. 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 2013 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 fulfill this strategic task, the Company seeks to establish strong local divisions in Russia and neighboring markets such as Central Europe.

Also, the Group is participating in global dairy trade, in order to have another degree of flexibility and capture attractive opportunities that arise on periodical basis in commodity markets.

Strategy fulfilment in 2013

In its vertical integration efforts, in 2013 the Group has put in operation the first stage (1,700 stalls) of the large-scale dairy farm and expects to increase in-house milk production by c. 40% in 2014. As full capacity of 6,800 stalls achieved (scheduled for 2015-16), the dairy farm will produce about 50 kt of raw milk annually, securing significant share the Group's milk needs in Ukraine. Total 2013 investments in Milkiland-Agro amounted to EUR 13 million.

In order to secure raw milk supply from small and individual farmers, the Group continued supporting the milk cooperative Moloko-Kraina, that in 2013 contributed more than 20% of Milkiland's milk intake in Ukraine. In 2013, Moloko-Kraina focused on building its management team, improvement of member quality and increase in operational efficiency. Thus, Moloko-Kraina is well-positioned to make next steps in its expansion.

In order to geographically diversify both raw milk and production base, the Group in 2013 continued development of Ostrowia division, acquired in 2012. For many years Poland proved its agricultural potential, and became on the major milk exporters in Europe. In 2013, Polish dairy companies increased their dairy exports by 23%, including 50% growth to Russia and 30% to Ukraine.

In 2013, the Group invested EUR 5.2 million to modernization of Ostrowia. The plant was brought in full compliance with the requirements of Ukrainian and Russian veterinary authorities, the full scale production of cheese in Ostrowia was resumed.

As the result, on July, 30, the plant obtained the export permission to Ukraine and started exports of cheese and dry milk products to Ukrainian market. The respective permission to Russia is expected in H1 2014. Ostrowia also started supplying its domestic market with hard and curd cheese.

The Group's extensive experience of doing business in Ukraine and Russia, together with well-developed distribution network, will help to develop Ostrowia's sales in CIS markets.

Moscow-based Ostankino in 2013 completed the first stage of its modernization program, aimed at product line optimization and increase in operational efficiency. Ostankino investments in 2013 amounted to EUR 2.0.

Strategic outlook for 2014

In 2014 Milkiland will focus on capitalizing organic development of the Group, including through capitalization on assets acquired in 2012-13.

The Group's Russian division during 2012-13 gained quite positive momentum, with both Ostankino and Rylsk on good track. Ostankino was very successful in its marketing efforts in 2013, and expects another double-digit growth for 2014, together with significant boost in profitability. Ryslk, upon achieving breakeven in 2013, is to deliver further growth and profits in 2014.

Milkiland is well positioned to exports to Russia, with its Ukrainian division enjoying devaluation of local currency, and Polish production unit ready to supply, with all necessary permissions to be in place.

However, uncertainties connected with political conflict between Ukraine and Russia do not allow to develop a sustainable plan. The Group appreciates that Russia is its core market, and will put efforts to secure its strong position in cheese segment.

The main goals of Milkiland Ukraine for 2014 is to launch full-speed Milkiland-Agro, including newly built farm, aiming to increase in-house milk production by 40%, and continue positive trend of capturing market share, both in fresh dairy and cheese segments.

Milkiland EU in 2014 is set for further growth, with sales increase both locally and internationally. In order to start the export to Russia and Customs Union countries, the Group expects to get the required permission in H1 2014. Strategically, the Group intends to procure from Poland significant part of its cheese supply to Russia.

Milkiland Intermarket is going to play an important role in the Group's business, since recent tensions between Ukraine and Russia suggest diversification of sources of revenues. The goal for 2014 is to develop sales in new geographies, such as countries of Central Asia, MENA and Far East.

The Group's investment budget for 2014 ranges EUR 9.0-10.0 million.

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, we believe, 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.

In April 2014, the Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance imposed restrictions on export of dairy products produced by largest Ukrainian dairy producers, including Milkiland's Okhtyrka, because of perceived violations of Russian technical requirements. For more details on the current situation with Russian export restrictions, refer to section *Material Events*.

In 2013, Russia restricted imports of milk and dairy products from some German, Lithuanian, Spanish and New Zealand exporters because of perceived violations of Russian veterinary and sanitary requirements detected during routine monitoring. There can be no assurance that Russia will not apply such or similar measures towards the Group or its subsidiaries 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

The Group performs its activities in Ukraine in the environment of political and economic crisis that has aggravated since November 2013. The assets of the Group in Ukraine are mainly located in Central, West and North-East of the country and not in the current tumultuous East of Ukraine.

However, as a possible consequence of the current crisis, the economic and financial situation in Ukraine could further deteriorate, which, inter alia, could lead to a significant devaluation of Ukrainian and Russian currencies, declining demand for FMCG goods at one of the Group's core markets, difficulties with performing foreign trade operations.

These unfavourable developments might have an adverse effect on the Group's business and its financial statements, including by lowering the valuation of its assets in hard currency equivalent.

At the moment it's unpredictable how the crisis will evolve and because of this we cannot make a reliable estimation of the financial consequence of the crisis for our company.

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 which shares are admitted to trading on a regulated market, is subject to the principles and best practice provisions of the Dutch Corporate Governance Code (the "Code"). The Code was last amended on December 10, 2008 and can be found at www.commissiecorporategovernance.nl 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") that can be found at www.corp-gov.gpw.pl/lad_corp.asp.

The Code contains principles and best practices provisions that regulate relations between the management board, the supervisory board and the general meeting of shareholders. The Company should state each year in its annual report how it applied the principles and best practice provisions of the Code in the past year and should, where applicable, carefully explain why a provision was not applied. It is up to the shareholders to call the management board and the supervisory board to account for compliance with the Code.

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 (naamloze vennootschap) 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 that has 1 subsidiary (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 and 1 Kazakhstan subsidiary, Milkiland EU Sp. z o.o. (Poland) that has 1 Polish subsidiary. Ukrainian companies have 43 subsidiaries, including 42 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. Three Non-Executive Directors (Mr. W.S. van Walt Meijer, Mr. G.C. Logush and Mr. V. Strukov) 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 and division of duties

During the year 2013, 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; Chief Executive Officer, responsible for running the company, implementation of strategic goals and achievement of planned financial results;

O. Yurkevich: Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2011; Chief Operation Officer, responsible for supply of raw materials, production and quality assurance;

V. Rekov: Non-Executive Director, appointed as of August 28, 2007 and reappointed as of June 17, 2011; responsible for strategic acquisitions and integration of new businesses; maintaining communication with investors, Member of Audit Committee;

F.J. Aherne: Non-Executive Director, appointed as of December 6, 2010, dismissed as of June 21, 2013; was responsible for oversight of quality, advise on quality issues and communication with the authorities of the countries where the company conducts business;

W. S. van Walt Meijer: Non-Executive Director, appointed as of December 6, 2010; Head of Audit Committee, responsible for supervising the Board's activities in respect to provision of financial information, internal controls, relations with external auditors;

G. W. J. Heerink: Non-Executive Director, appointed as of June 17, 2011; dismissed as of June 21, 2013, was responsible for assisting to the Board and the Company in the areas of raw milk supply and milk cooperatives establishment;

O. Rozhko: Non-Executive Director, Chairman of the Board of Directors, appointed as of June 22, 2012; responsible for coordination of the Board and ensuring of proper corporate governance in place;

V. Strukov: Non-Executive Director, appointed as of June 21, 2013, responsible for consulting in the financial sphere, business processes optimizations, informational support on the investment opportunities and perspectives and

G.C. Logush: Non-Executive Director, appointed as of June 21, 2013 responsible for assisting in Company's strategy development, risk assessment control and review of the management performance. ***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, where applicable) of the Code and Best practice provisions No. 28 and No. 40 of the WSE Corporate Governance Rules. The Terms of Reference of the Board of the Company are applied and interpreted with reference to the Code and the WSE Corporate Governance Rules and can be viewed on the Company's website (http://www.milkiland.nl/en/Investor_relations/General_information/Corporate_documents).
The Chairman of the Board of Directors determines the agenda, presides over meetings of the Board of Directors and is responsible for the proper functioning of the Board of Directors. The Chairman of the Board of Directors shall always be a Non-Executive Director and is appointed by the General Meeting of Shareholders. The Board of Directors is assisted by our corporate secretary. All members of the Board of Directors have access to the advice and services of the corporate secretary, who is charged with ensuring that the Board of Directors procedures are followed and that the Board of Directors acts in accordance with its statutory obligations under the Articles of Association. The corporate secretary is appointed and dismissed by the Board of Directors.

Board of directors - issue of shares and acquisition of own shares

According to the Articles of Association (Art. 5) Board of directors have the authority to propose to the General Meeting of Shareholders to issue the shares, such a proposal shall contain the price and the and further terms and conditions of the issue. The General Meeting of Shareholders may resolve to designate the Board of Directors, for a fixed period not exceeding five years, as the body authorised to issue shares.

Also the Board of Directors may be granted by the General Meeting of Shareholder with the right to resolve upon the exclusion or limitation of pre-emptive rights.

Art. 6 of the Articles of Association stipulates that the Company shall have the right to acquire fully paid-up shares in its own share capital against payment of a consideration provided:

a. the shareholders' equity less the acquisition price is not less than the sum of the paid and called-up part of the share capital and the reserves which must be maintained by Jaw or under the Articles of Association;

b. the aggregate par value of the shares in its share capital to be acquired and of those already held by the Company and its subsidiaries and of those for which the Company and its subsidiaries hold a right of pledge does not exceed half of the issued share capital; and

c. the General Meeting of Shareholders has authorised the acquisition. The authorisation by the General Meeting of Shareholders will be valid for at most eighteen months and shall stipulate the number of shares that may be acquired, how they may be acquired and the upper and lower limit of the acquisition price.

For the purpose of subparagraph a. above, the detennining factor shall be the amount of the shareholders' equity stated in the last adopted balance sheet less the acquisition price.

The General Meeting of Shareholders of 2013 gave the authorization to the Board of Directors to issue, acquire own shares and to exclude or limit the pre-emptive rights.

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 "Audit Committee"). The Board of Directors may establish any other committee as the Board of Directors shall decide. According to best practice provision III.8.3 of the Code, 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. W.S. van Walt Meijer (the Chairman), Mr. V. Rekov. 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 24,537,500 amounting to approximately 78.52% 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 2013, one General Meeting of Shareholders was held. The principal decisions taken by the General Meeting of Shareholders involved the appointment of Mr. V. Strukov and Mr. G.C. Logush as new Non-Executive Directors, resignation of Mr. G.W.J. Heerink and Mr. F.J. Aherne from the Board of Directors, adoption of the annual accounts for the financial year 2012, approval of reservation and dividend policy, discharge of the members of the Board of Directors for the financial year 2012, appointment of the external auditor as referred to in section 2:393 of the Dutch Civil Code for the financial year 2013, and the authorization of the Board of Directors for a period of 18 months following June 21, 2013 to i) resolve to issue shares and/or to grant rights to subscribe for 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 ii) 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 applicable laws and regulations. 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.

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 individual group companies report regularly to the Board of Directors, including on associated risks. These reports are discussed in detail with the Board of Directors, which critically assesses the accuracy and completeness of these reports. Internal representations received from management, regular management reviews, reviews of the design and effectiveness of internal controls and reviews in Audit committee are integral parts of the Company's system of internal risk management and controls. On the basis thereof, the Board of Directors confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies, and confirms that these controls have properly functioned in 2013. The financial statements fairly represent the financial condition and result of operations of the Company and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide certainty as to the realization of strategic objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations.

Internal audit department

In the financial year 2013, 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 WSE Code and the Code

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 Code that prescribes the existence and functioning of two separate governing bodies.

The Company does not comply with the Recommendation I.9. of the Code of Best Practise for WSE Listed Companies regarding balanced proportion of men and women in the Management Board and Supervisory Board. As the Company has a one-tier management structure, so the management and supervisory duties performs Board of Directors which currently consists of 6 men and one woman. However the Company understands and supports this recommendation and may try to involve women to the Board of Directors.

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

The Company explains why the following best practice provisions of the Code do not apply:

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

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

Best practice provision III.8.3 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 such directors are independent within the meaning of best practice provision III.2.2 of the Code. Currently the Board of Directors of the Company is composed as such that it has majority of Non-Executive Directors. However, only three out of five Non-Executive Directors are independent within the meaning of best practice provision III.2.2 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 2014.

Report of non-executive directors

In 2013, Mr. V. Rekov, Mr. W.S. van Walt Meijer and Mr. O. Rozhko proceeded to perform their duties as Non-Executive Directors of the Company. Mr. G.W.J. Heerink and Mr. F.J. Aherne have performed their duties as Non-Executive Director until June 21, 2013 when the General Meeting of Shareholders of the Company. dismissed them from their post.

Also the General Meeting of Shareholders of the Company appointed Mr. G.C. Logush and Mr. V. Strukov as Non-Executive members of the Board of Directors as of the date of the annual General Meeting of Shareholders on June 21, 2013.

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. W.S. van Walt Meijer, Mr. G.W.J. Heerink (dismissed) and newly appointed Mr. G.C. Logush and Mr. V. Strukov are independent within the meaning of best practice provision III.2.2 of the Code, whereas Mr. V. Rekov and Mr. O. Rozhko cannot be considered independent in this respect.

In carrying out their task, all of the above mentioned Non-Executive Directors gave their advices and expertise for the best Company practice. Mr. O. Rozhko is the Chairman of the Board of Directors, Mr. W.S. van Walt Meijer is the Chairman of the Audit Committee and Mr. V. Rekov is a member of the Audit Committee.

There were no irregularities in the 2013 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 June 17, 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 2013	Appointed	Gross Remuneration (EUR)	Expenses reimbursement (EUR)	Total (EUR)
Oleg Rozhko	Chairman of the Board of Director	22.06.2012	50,000	0	50,000
Olga Yurkevich	Executive Director, Chief Production Officer	28.08.2007	420,811	0	420,811
Anatoliy Yurkevych	Executive Director, Chief Executive Officer	28.08.2007	311,643	0	311,643
Vyacheslav Rekov	Non-executive Director	28.08.2007	42,170	0	42,170
Frederick J. Aherne (until June 2013)	Non-executive Director	06.12.2010	39,518	0	39,518
Willem Scato van Walt Meijer	Non-executive Director	06.12.2010	50,000	0	50,000
Gerard Heerink (until June 21,2013)	Non-executive Director	17.06.2011	20,000	0	20,000
Vitaliy Strukov	Non-Executive Director	21.06.2013	16,309	0	16,309
George Logush	Non-Executive Director,	21.06.2013	20,000	0	20,000

Directors' remuneration stands for directors' fees, salaries of Executive Directors, bonuses and other incentive payments. The Company's remuneration policy in 2013 did not provide any reimbursement of Directors expenses.

REPRESENTATIONS OF THE BOARD OF DIRECTORS

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

The Board of Directors hereby represents, to the best of its knowledge, that the statutory financial statements of the Company and its consolidated subsidiaries for the year ended 31 December 2013 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 December 31, 2013 gives a true and fair view of the position of the Company and its consolidated subsidiaries as at December 31, 2013 and of the development and the performance of the Company and its consolidated subsidiaries during the year ended December 31, 2013, 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 December 31, 2013, 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 Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code (Monitoring Commissie 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 2013, the Board of Directors assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analysis that was carried out at the Company within the framework of governance and compliance, the Board is of the opinion, after consulting with the Audit Committee, that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. There is an inherent limitation in that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty in regards to the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2014.

Board of Directors of Milkiland N.V.

Amsterdam, ___________________________2014

A. Yurkevych O. Yurkevich O. Rozhko

V. Rekov W.S. van Walt Meijer G.C. Logush V. Strukov

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Notes	31 December 2013	31 December 2012
ASSETS			
Current Assets			
Cash and cash equivalents	7	13,056	23,850
Trade and other receivables	8	62,088	48,236
Inventories	9	29,763	25,487
Current biological assets	13	7,538	5,420
Current income tax assets		19	204
Other taxes receivable	10	16,781	10,750
		129,245	**113,947**
Non-Current Assets			
Goodwill	11	3,426	3,485
Property, plant and equipment	12	187,974	189,129
Non-current biological assets	13	4,102	3,296
Other intangible assets	12	3,335	3,824
Deferred income tax assets	30	8,405	9,754
Other Non-current assets		-	1,006
		207,242	**210,494**
TOTAL ASSETS		**336,487**	**324,441**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	26,948	15,120
Current income tax liabilities		239	534
Other taxes payable	15	2,271	1,570
Short-term loans and borrowings	16	79,284	50,526
		108,742	**67,750**
Non-Current Liabilities			
Loans and borrowings	16	24,475	46,427
Deferred income tax liabilities	30	27,177	30,715
Other non-current liabilities		657	864
		52,309	**78,006**
Total liabilities		**161,051**	**145,756**
Equity attributable to owners of the Company			
Share capital	17	3,125	3,125
Share premium		48,687	48,687
Revaluation reserve	18	48,752	53,228
Currency translation reserve	19	(18,277)	(7,441)
Retained earnings		88,050	74,702
		170,337	**172,301**
Non-controlling interests		5,099	6,384
Total equity		**175,436**	**178,685**
TOTAL LIABILITIES AND EQUITY		**336,487**	**324,441**

(All amounts in euro thousands unless otherwise stated)

	Notes	2013	2012
Revenue	22	340,973	287,013
Change in fair value of biological assets	23	1,305	934
Cost of sales	24	(268,810)	(209,737)
Gross Profit		**73,468**	**78,210**
Selling and distribution expenses	25	(28,843)	(26,178)
Administrative expenses	26	(31,868)	(27,695)
Other income/(expenses), net	27	6,420	(4,121)
Gain on subsidiary acquisition	4	15	1,325
Operating Profit		**19,192**	**21,541**
Finance income	28	5,730	3,328
Finance expenses	29	(11,202)	(9,500)
Profit before income tax		**13,720**	**15,369**
Income tax	30	(2,060)	(1,808)
Net profit for the year		**11,660**	**13,561**
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating to presentation currency		(11,005)	(524)
Total other comprehensive loss		**(11,005)**	**(524)**
Total comprehensive income		**655**	**13,037**
Profit attributable to:			
Owners of the Company		10,835	12,771
Non-controlling interests		825	790
		11,660	**13,561**
Total comprehensive income attributable to:			
Owners of the Company		172	12,350
Non-controlling interests		483	687
		655	**13,037**
Earnings per share	35	**34.67**	**40.87**

(All amounts in euro thousands unless otherwise stated)

	Notes	2013	2012
Cash flows from operating activities:			
Profit before income tax		**13,720**	**15,369**
Adjustments for:			
Depreciation and amortization	12	13,975	13,519
Loss from disposal and write off of inventories	27	16	1,501
Change in provision and write off of trade and other accounts receivable	27	(883)	926
Change in provision and write off of unrealised VAT	27	1,839	6,928
Loss from write off, revaluation and disposal of non-current assets	27	166	670
Change in fair value of biological assets	23	(1,305)	(933)
Operational foreign exchange results, net	27	(2,193)	(491)
Finance income	28	(5,730)	(2,340)
Gain realised from subsidiary acquisitions	4	(15)	(1,325)
Finance expenses	29	11,202	9,500
Write off of accounts payable	27	(185)	(44)
Operating cash flow before movements in working capital		**30,607**	**43,280**
Increase in trade and other accounts receivable		(11,822)	(24,186)
(Increase)/decrease in inventories		(5,293)	9,109
Increase in biological assets		(1,996)	(2,430)
Increase/(decrease) in trade and other payables		12,345	(834)
(Increase)/decrease in other taxes receivable		(8,202)	4,782
Increase/(decrease) in other taxes payable		701	(291)
Net cash provided by operations		**16,340**	**29,430**
Income taxes paid		(3,019)	(3,930)
Interest received		1,480	2,340
Interest paid		(9,982)	(9,919)
Net cash provided by operating activities		**4,819**	**17,921**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	12	(20,918)	(34,548)
Proceeds from sale of property, plant and equipment	12	100	174
Increase of other non-current assets		-	(1,031)
Acquisition of subsidiaries, net of cash acquired	4	(488)	(14,146)
Net cash used in investing activities		**(21,306)**	**(49,551)**
Cash flows from financing activities:			
Proceeds from borrowings	16	71,437	91,676
Repayment of borrowings	16	(60,648)	(87,025)
Dividends paid	20	(2,500)	-
Commissions paid		(109)	(2,202)
Acquisition of non-controlling interest	4	(1,416)	(165)
Net cash provided by financing activities		**6,764**	**2,284**
Net decrease in cash and equivalents		**(9,723)**	**(29,346)**
Cash and equivalents, beginning of year	7	**23,850**	**53,410**
Effect of foreign exchange rates on cash and cash equivalents		(1,071)	(214)
Cash and equivalents, end of year	7	**13,056**	**23,850**

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

		Attributable to equity holders of the company							
	Notes	Share capital	Share premium	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total stockholders' equity	Non-controlling interests	Total equity
Balance at 1 January 2012		**3,125**	**48,687**	**(8,134)**	**58,320**	**57,861**	**159,859**	**5,956**	**165,815**
Profit for the year		-	-	-	-	12,771	**12,771**	790	**13,561**
Other comprehensive income/(loss), net of tax effect		-	-	702	(1,123)	-	**(421)**	(103)	**(524)**
Total comprehensive income for the year		**-**	**-**	**702**	**(1,123)**	**12,771**	**12,350**	**687**	**13,037**
Acquisition of non-controlling interests	4	-	-	(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**
Balance at 1 January 2013		**3,125**	**48,687**	**(7,441)**	**53,228**	**74,702**	**172,301**	**6,384**	**178,685**
Profit for the year		-	-	-	-	10,835	**10,835**	825	**11,660**
Other comprehensive income/(loss), net of tax effect		-	-	(10,663)	-	-	**(10,663)**	(342)	**(11,005)**
Total comprehensive income for the year		**-**	**-**	**(10,663)**	**-**	**10,835**	**172**	**483**	**655**
Acquisition of non-controlling interests	4	-	-	(173)	256	281	**364**	(1,787)	**(1,423)**
Acquisition of subsidiaries	4	-	-	-	-	-	**-**	19	**19**
Declaration of Dividends	20	-	-	-	-	(2,500)	**(2,500)**	-	**(2,500)**
Realised revaluation reserve, net of income tax		-	-	-	(4,732)	4,732	**-**	-	**-**
Balance at 31 December 2013		**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**	**5,099**	**175,436**

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 2013 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 28 April 2014 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 2013 the Company is controlled by 1, Inc. Cooperatief (holding 73.52% 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, in Russia and in Poland, able to process up to 1,300 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 2013 to 31 December 2013 the Company had the following direct and indirect subsidiaries:

Name	Country of incorporation	Effective share of ownership 31 December 2013	Effective share of ownership 31 December 2012
MLK Finance Limited	Cyprus	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%
LLC Milkiland-Kazakhstan	Kazakhstan	100.0%	-
Milkiland Corporation	Panama	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%
Ostrowia 10 sp. z.o.o	Poland	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	100.0%	95.9%
LLC Milkiland RU	Russia	100.0%	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%
PrJSC Gorodnia Milk Plant	Ukraine	72.3%	72.3%
LLC Agrosvit	Ukraine	100.0%	100.0%
LLC Molochni vyroby	Ukraine	100.0%	100.0%
DE Borznyanskiy Milk Plant	Ukraine	100.0%	100.0%
LLC Moloko-Kraina	Ukraine	100.0%	100.0%
LLC Torgovyi dim Milkiland	Ukraine	100.0%	100.0%
LLC Ukrainian Milk House	Ukraine	100.0%	100.0%
LLC Milkiland Intermarket	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%
LLC Moloko Polissia	Ukraine	-	100.0%
PrJSC Transportnyk	Ukraine	70.3%	70.3%
LLC Milkiland Agro	Ukraine	100.0%	100.0%
LLC Stugna-Moloko	Ukraine	100.0%	100.0%
LLC Trubizh-Moloko	Ukraine	100.0%	100.0%
PJSC Iskra	Ukraine	70.8%	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%
PE Agro PersheTravnya	Ukraine	-	100.0%
ALLC Nadiya	Ukraine	100.0%	100.0%
LLC Zemledar 2020	Ukraine	-	100.0%
PAE Dovzhenka	Ukraine	-	100.0%
LLC Uspih-Mena (former LLC Feskivske)	Ukraine	100.0%	100.0%
JSC Sosnitsky Rajagrohim	Ukraine	97.0%	-

During the year ended 31 December 2013, the Group finalized acquisition of JSC Sosnitsky Rajagrohim (Note 4).

During the year ended 31 December 2013, the Group finalized registration of new subsidiaries LLC Kursk-Moloko in Russia and LLC Milkiland-Kazakhstan in Kazakhstan.

During the year ended 31 December 2013, the Group liquidated LLC Moloko Polissia, LLC Batkivschyna, PE Agro PersheTravnya, LLC Zemledar 2020 and PAE Dovzhenka through merging them with other Group subsidiaries LLC Uspih-Mena (former LLC Feskivske) and ALLC Nadiya.

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 (Note 4).

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 2013 and have an impact on the Group:

- ***Amendment to IAS 1, 'Financial statement presentation'*** regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- ***IFRS 13, 'Fair value measurement',*** aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 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, endorsed by the EU 1 January 2014). 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.
- ***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.
- ***Amendments to IAS 36 - "Disclosure of information regarding the amount of expected reimbursement for non-financial assets."*** This amendment reduces the circumstances under which the recoverable amount of the asset or cash-generating units should be disclosed, and introduced an explicit requirement to disclose the discount rate in determining the impairment loss (or reversal of impairment), where the recoverable amount (based on fair value less costs of disposal) determined using discounting. The amendments are effective for annual periods beginning on or after 1 January, 2014. It is assumed that these amendments will have no impact on the Company's financial position or results of its operations.

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 statement of comprehensive income.

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, plant and equipment is stated at revalued cost, net of depreciation and accumulated provision for impairment. The revaluation model is used for determining the carrying amount of property plant and equipment.

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. The effective date of the last revaluation for property, plant and equipment performed is 31 December 2011.

Depreciation is charged to the consolidated statement of comprehensive income 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 statement of comprehensive income in the reporting year in which the expenditure is incurred.

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

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 statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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 statement of financial position. 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 recognised 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised 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 statement of comprehensive income represents the net difference between the excess of the fair value less estimated costs to sell of biological assets over their total cost at the end of reporting period, and the corresponding amount at the beginning of the reporting period.

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

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

Inventory is accounted for at FIFO method.

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

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

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

Financial instruments. Financial instruments reported in the Group's statement of financial position 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 statement of financial position 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 statement of comprehensive income. When a financial liability is written off, the difference between paid or accrued compensation and a current carrying amount is recognised in the statement of comprehensive income.

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

Financial assets at fair value through profit and loss

A financial asset is classified at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognised 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 recognised in the statement of comprehensive income when assets are derecognised 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 recognised initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Fair value

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

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

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

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

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

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

Financial assets and financial liabilities of the Group include cash and cash equivalents, receivables and payables, other liabilities and loans. Accounting policy as to their recognition and evaluation are presented in the relevant sections of these Notes.
During the reporting period the Group did not use any financial derivatives, interest swaps or forward contracts to reduce currency or interest risks.

Fair value of biological assets

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

Fair value of agricultural produce

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

Non-derivative financial liabilities

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

As at 31 December 2013 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 recognised 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 recognised 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, recognised 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 recognised, the previously recognised impairment loss is recovered. Any subsequent loss recovery is recognised 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 derecognised as soon as they are considered to be bad.

Financial investments available for sale

Impairment losses on available for sale investments are recognised by transferring the cumulative loss that has been recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 statement of comprehensive income 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.

Contingencies. Contingent liabilities are not recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised at the same time as the corresponding revenue.

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

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

Income taxes

Current tax

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

Deferred tax

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

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

Where the deferred income 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 recognised 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 income 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 income tax assets are recognised 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 income 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 income tax assets to be utilized. Unrecognised deferred income tax assets are reassessed at each consolidated statement of financial position date and recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be realized.

Deferred income 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 recognised directly in net assets attributable to participants is recognised in the net assets attributable to participants and not in the statement of comprehensive income. Deferred income tax assets and deferred income 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 statement of comprehensive income, 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 short term investments with maturity up to three months that can be easily converted to respective cash funds and have insignificant risk of their cost change.

Foreign currency

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

(All amounts in euro thousands unless otherwise stated)

Foreign currency transactions
Foreign currency transactions are translated into the functional currency of Group's entities using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the statement of financial position date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "finance income" or "finance expenses" on net basis. All other foreign exchange gains and losses are presented in the statement of comprehensive income within "Other income/(expenses), net".

Non-monetary assets and liabilities carried at historical cost are retranslated at the rates prevailing at the dates of the transactions. 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 statement of comprehensive income, 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 statement of financial position 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 statement of comprehensive income.

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

	US dollar	UAH	RUR	PLN
Average for year ended 31 December 2013	1.3280	10.6152	42.3129	4.1975
As at 31 December 2013	1.3791	11.0231	44.9699	4.1472
Average for year ended 31 December 2012	1.2857	10.2741	39.9262	4.1856
As at 31 December 2012	1.3194	10.5460	40.3295	4.0882

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 statement of financial position date (deferred VAT) is stated in the statement of financial position 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.

Dividend distribution. Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders on 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 statement of financial position 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. Additional information is disclosed in notes 11 and 12.

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. Additional information is disclosed in note 13.

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. Additional information is disclosed in note 8.

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. Additional information is disclosed in note 32.

(All amounts in euro thousands unless otherwise stated)

4 Business combinations

Acquisitions of non-controlling interests. In June 2013 the Group finalized acquisition 4.15% of non-controlling interest in JSC Ostankino Dairy Combine from minority shareholders having paid EUR 1,415 thousand. As a result, the Group's equity interest in this entity increased to 100%. The result of the acquisition at the amount of EUR 274 thousand is recognised directly in equity.

Net assets of Ostankino Dairy Combine as at date of NCI aquisition	40,692
Share in net assets acquired (4.15%)	1,689
Consideration paid	(1,415)
Excess of share in net assets acquired over consideration paid	274

In 2013 the Group finalized acquisition 2.76% of non-controlling interest in PJSC Iskra from minority shareholders having paid EUR 1 thousand. As a result, the Group's equity interest in this entity increased to 70.8%. The result of the acquisition at the amount of EUR 98 thousand is recognised directly in equity.

Net assets of PJSC Iskra as at date of NCI aquisition	
Share in net assets acquired (2.76%)	99
Consideration paid	(1)
Excess of share in net assets acquired over consideration paid	98

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

Acquisitions of subsidiaries. In 2013 the Group focused on the development of raw milk supply system and acquired 97.0% shares in JSC Sosnitsky Rajagrohim. This company is 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.

	JSC Sosnitsky Rajagrohim
Accounts receivable	55
Taxes receivable	19
Inventories	176
PPE	58
Accounts payable	(217)
Taxes payable	(4)
Other intangible assets	437
Total net identifiable assets	**524**
Cash paid	490
Fair value of identifiable assets	(524)
Non-controlling interest	19
Gain on subsidiary acquisition	**(15)**

(All amounts in euro thousands unless otherwise stated)

The excess of JSC Sosnitsky Rajagrohim net assets acquired over the consideration paid in the amount of EUR 15 thousand is recognised in the consolidated statement of comprehensive Income as gain on subsidiary acquisition. 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.

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 recognised at the acquisition date.

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 recognised 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 recognised as other financial payables within trade and other payables (note 14).

(All amounts in euro thousands unless otherwise stated)

Revenue received and profit/(loss) incurred by the major acquisition from the day of acquisition to 31 December 2013 are as follows:

	JSC Sosnitsky Rajagrohim
Revenue	135
Net profit/(Loss)	(82)

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)

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, Poland and Netherlands. The Netherlands segment does not meet the quantitative threshold required by IFRS 8 and is not reported.

Ukraine, Russian and Poland 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 46% (2012: 51%) of the Group's revenue;
- *Whole-milk*. This segment is involved in production and distribution of whole-milk products. This segment generated 42% (2012: 40%) 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.

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

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

(All amounts in euro thousands unless otherwise stated)

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

	2013				2012			
	Russia	**Ukraine**	**Poland**	**Total**	**Russia**	**Ukraine**	**Poland**	**Total**
Total segment revenue	144,935	209,872	15,144	**369,951**	115,449	202,120	232	**317,801**
Inter-segment revenue	(3,243)	(24,939)	(796)	**(28,978)**	-	(30,788)	-	**(30,788)**
Revenue from external customers	141,692	184,933	14,348	**340,973**	115,449	171,332	232	**287,013**
EBITDA	**6,680**	**31,724**	**(2,255)**	**36,149**	**6,648**	**32,273**	**(319)**	**38,602**
EBITDA margin	5%	17%	-16%	**11%**	6%	19%	-138%	**13%**
Depreciation and amortisation	3,327	8,951	1,697	**13,975**	3,596	9,383	527	**13,506**

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:

	2013				2012			
	Cheese & butter	**Whole-milk products**	**Ingredients**	**Total**	**Cheese & butter**	**Whole-milk products**	**Ingredients**	**Total**
Total segment revenue	181,184	144,449	44,318	**369,951**	166,473	114,667	36,661	**317,801**
Inter-segment revenue	(24,530)	-	(4,448)	**(28,978)**	(21,199)	-	(9,589)	**(30,788)**
Revenue from external customers	156,654	144,449	39,870	**340,973**	145,274	114,667	27,072	**287,013**
EBITDA	**18,901**	**12,241**	**5,007**	**36,149**	**24,191**	**11,081**	**3,330**	**38,602**
EBITDA margin	12%	8%	13%	**11%**	17%	10%	12%	**13%**
Depreciation and amortisation	5,565	6,134	2,276	**13,975**	5,024	6,072	2,410	**13,506**

(All amounts in euro thousands unless otherwise stated)

A reconciliation of EBITDA to profit before tax:

	2013	2012
EBITDA	36,149	38,602
Other segments EBITDA	(2,712)	(1,214)
Total segments	**33,437**	**37,388**
Depreciation and amortisation	(13,975)	(13,519)
Acquisition related cost (note 4)	-	(1,303)
Non-recurring representative charges and consulting fees	(117)	(1,680)
Loss from disposal and impairment of non-current assets	(168)	(670)
Finance expenses	(11,202)	(9,500)
Finance income	5,730	3,328
Gain on subsidiary acquisition	15	1,325
Profit before tax	**13,720**	**15,369**

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 income(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:	2013	2012
Sales revenue	15,200	23,046
Finance income/(expenses), net	3,109	(223)

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

Entities under common control:	2013	2012
Trade accounts receivable	1,645	6,557
Other financial assets	17,144	1,694
Other accounts receivable	160	-

During 2013, the Group extended prepayments to related parties for farming equipment in amount EUR 14,035 thousand (2012: EUR 7,558 thousand) which were subsequently cancelled due to the inability of parties to fulfill their obligations in due manner. During 2012, the Group extended prepayments for agricultural seeds and crop protection products in amount EUR 4,000 thousand, through agency contracts with related parties under common control. All above contracts were secured by personal guarantee of the Company's controlling shareholder.

(All amounts in euro thousands unless otherwise stated)

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 970 thousand (2012: EUR 1,411 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 2013	31 December 2012
Short term deposits	6,880	8,888
Cash in bank and cash on hand	6,176	14,962
Total cash and cash equivalents	**13,056**	**23,850**

An analysis of the Group's cash and cash equivalents by currency is provided in note 34.

8 Trade and other accounts receivable

	31 December 2013	31 December 2012
Trade accounts receivable	30,358	36,919
Other financial assets	17,847	2,785
Allowance for doubtful debts	(1,086)	(2,757)
Total financial assets within trade and other receivables	**47,119**	**36,947**
Advances issued	12,684	10,346
Other receivables	3,900	2,827
Allowance for doubtful debts	(1,615)	(1,884)
Total trade and other accounts receivable	**62,088**	**48,236**

As at 31 December 2013 trade receivables of EUR 10,525 (2012: EUR 13,187 thousand) were past due and individually determined to be impaired in the amount of EUR 1,086 thousand (2012: EUR 2,757 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 other financial assets include amounts due from related parties. As at 31 December 2013 the amount of euro 17,144 (consisting of 14,035 thousand nominal and 3,109 thousand in interest and penalties) relates to prepayments on farming equipment. The receivables on related parties have arisen due to the cancellation of the fore mentioned farming equipment for which these related parties were commissioned. Refer to note 6 for further elaboration.

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2013		31 December 2012	
	Trade receivables	**Other financial receivables**	**Trade receivables**	**Other financial receivables**
Customers with no history of default	19,833	17,847	23,732	2,785
Total current and not impaired	**19,833**	**17,847**	**23,732**	**2,785**
Individually determined to be impaired				
- less than 30 days overdue	6,906	-	8,183	-
- 30 to 60 days overdue	1,012	-	1,406	-
- 60 to 90 days overdue	827	-	548	-
- 90 to 360 days overdue	1,016	-	1,718	-
- over 360 days overdue	764	-	1,332	-
Total individually determined to be impaired	**10,525**	-	**13,187**	-
Less impairment provision	(1,086)	-	(2,757)	-
Total	**29,272**	**17,847**	**34,162**	**2,785**

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

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

	2013	**2012**
Balance 1 January	**2,757**	**1,999**
(Unused amount reversed)/provided by during the year	(1,499)	859
Receivable written off during the year as uncollectible	(37)	(93)
Exchange difference	(135)	(8)
Balance 31 December	**1,086**	**2,757**

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 34.

The Group does not hold any collateral as security.

(All amounts in euro thousands unless otherwise stated)

9 Inventories

	31 December 2013	31 December 2012
Raw and other materials	12,267	8,527
Finished goods and work in progress	15,604	13,383
Agriculture produce	1,892	3,577
Total inventories	**29,763**	**25,487**

At 31 December 2013 and 31 December 2012 bank borrowings are secured on inventories the value of EUR 16,953 thousand (2012: EUR 1,899 thousand) (note16).

Agriculture produce as at 31 December 2013 include a gain from revaluation of maize, wheat and barley at amount EUR 595 thousand (2012: EUR 618 thousand).

As at 31 December 2013 inventories are stated net of provision for obsolescence at the amount of EUR 553 thousand (2012: EUR 1,537 thousand).

10 Other taxes receivable

	31 December 2013	31 December 2012
VAT recoverable	16,428	10,560
Payroll related taxes	117	154
Other prepaid taxes	236	36
Total other taxes receivable	**16,781**	**10,750**

VAT receivable as at 31 December 2013 is shown net of provision at the amount of EUR 1,736 thousand (31 December 2012: EUR 2,018 thousand). The provision for VAT is created for part of VAT balances due to complexity of reimbursement of VAT in Ukraine and is estimated at 25% (2012: 35%) of VAT refund claimed from the Ukrainian Government based on previous statistics of VAT recoverability.

11 Goodwill

	2013	2012
Balance at 1 January	3,485	3,092
Acquisitions	-	518
Foreign currency translation	(59)	(125)
Balance at 31 December	**3,426**	**3,485**

Goodwill is initially recognised 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.

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 2012 and 2013 (note 4).

(All amounts in euro thousands unless otherwise stated)

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

	31 December 2013	31 December 2012
Milk production operations	2,114	2,114
Agricultural operations	1,312	1,371
	3,426	**3,485**

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.

	2013	2012
Pre-tax discount rate	17.09%	15.62%
Revenue growth rate for the five-year period	7%	7%-6%
EBITDA growth rate for the five-year period	8%-13%	12%-13%
Revenue growth rate after the five-year period	0%	0%

The key assumptions used for the value in use calculations for agricultural 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.

	2013	2012
Pre-tax discount rate	19.60%	16.60%-19.60%
Revenue growth rate for the five-year period	7%	8%
EBITDA growth rate for the five-year period	7%	8%
Revenue growth rate after the five-year period	0%	0%

The values assigned to the key assumptions represent management’s assessment of future trends in the business and are based on both external and internal sources.

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 2013 and in 2012. 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 2012						
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)	-	-	-
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**	**3,824**	**192,953**
At 31 December 2012	-	-	-	-	-	
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**
Year ended 31 December 2013						
Opening net book value	112,799	37,280	9,374	29,676	3,824	192,953
Additions	12,570	8,368	1,433	174	227	22,772
Additions from acquisition	58	-	-	-	437	495
Depreciation and amortisation	(4,401)	(7,263)	(1,724)	-	(587)	(13,975)
Transfers	7,702	1,450	611	(9,347)	(416)	-
Disposals	(70)	(283)	(285)	-	(30)	(668)
Exchange rate difference	(6,615)	(1,730)	(368)	(1,435)	(120)	(10,268)
Closing net book value	**122,043**	**37,822**	**9,041**	**19,068**	**3,335**	**191,309**
At 31 December 2013						
Revalued cost	132,114	55,770	13,826	19,068	4,540	225,318
Accumulated depreciation and amortisation	(10,071)	(17,948)	(4,785)	-	(1,205)	(34,009)
Net book value	**122,043**	**37,822**	**9,041**	**19,068**	**3,335**	**191,309**

At 31 December 2013 bank borrowings are secured on properties for the value of EUR 144,771 thousand (2012: EUR 82,115 thousand) (note16).

At 31 December 2013 the gross carrying value of fully depreciated property, plant and equipment is EUR 6,893 thousand (2012: EUR 6,511 thousand).

At 31 December 2013 EUR 1,314 thousand (2012: EUR 1,261 thousand) 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 recognised as a result of business combination (note 4).

At 31 December 2013 EUR 1,723 thousand (2012: EUR 1,955 thousand) 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 useful life of 10 years were recognised 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. 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. The valuation of the biological assets is within level 3 of the fair value hierarchy.

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 2013		31 December 2012	
Current biological assets of animal breading	Units	Amount	Units	Amount
Cattle	4,253	4,211	4,334	3,455
Other	-	863		485
	4,253	**5,074**	**4,334**	**3,940**
Current biological assets of plant growing	Hectares	Amount	Hectares	Amount
Wheat	3,929	1,018	3,115	777
Maize	1,372	768	-	-
Barley	-	-	1,259	112
Other	-	678		591
	5,301	**2,464**	**4,374**	**1,480**
Total current biological assets		**7,538**		**5,420**
Non-current biological assets	Units	Amount	Units	Amount
Cattle	3,286	4,102	3,354	3,296
	3,286	**4,102**	**3,354**	**3,296**

Changes in key assumptions used to estimate biological assets would have the following effect on biological assets as at 31 December 2013:

	2013	**2012**
1 % increase in discount rate	(28)	(169)
1 % decrease in discount rate	28	177
10 % increase in price for milk	618	1,574
10 % decrease in price for milk	(1,402)	(1,574)
10 % increase in price for meat	156	160
10 % decrease in price for meat	(144)	(160)
10 % increase in prices for crops	218	288
10 % decrease in prices for crops	(198)	(288)

(All amounts in euro thousands unless otherwise stated)

The following represents the changes during the year ended 31 December 2013 and 31 December 2012 in the carrying amounts of non-current and current biological assets:

	Current biological assets of animal breading	Current biological assets of plant growing	Non-current biological assets
As at 1 January 2012	**2,260**	**1,162**	**2,583**
Purchases	105	-	-
Additions from acquisitions of subsidiaries	176	89	204
Investments into future crops	-	997	-
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	2,820	396	(912)
Transfers	(1,421)		1,421
Decrease due to harvest	-	(1,164)	-
As at 31 December 2012	**3,940**	**1,480**	**3,296**
Purchases			
Additions from acquisitions of subsidiaries	-	138	-
Investments into future crops	-	1,263	-
Gain arising from changes in fair value attributable to physical changes and to changes in market prices	990	1,063	950
Transfers	144	-	(144)
Decrease due to harvest	-	(1,480)	-
As at 31 December 2013	**5,074**	**2,464**	**4,102**

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 2013	31 December 2012
Trade payables	20,930	8,693
Accounts payable for fixed assets	347	32
Interest payable	163	188
Other financial payables	86	393
Total financial liabilities within trade and other payable	**21,526**	**9,306**
Wages and salaries payable	2,121	1,622
Accruals for bonuses	-	39
Advances received	482	1,223
Other accounts payable	434	1,065
Accruals for employees' unused vacations	2,385	1,865
Total trade and other payables	**26,948**	**15,120**

Financial liabilities are normally settled within 60-days period.

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

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 34.

15 Other taxes payable

	31 December 2013	31 December 2012
VAT payable	881	615
Payroll related taxes	1,217	694
Other taxes payable	173	261
Total other taxes payable	**2,271**	**1,570**

(All amounts in euro thousands unless otherwise stated)

16 Interest bearing loans and borrowings

	31 December 2013	31 December 2012
Current		
Interest bearing loans due to banks	76,561	50,232
Bank overdrafts	2,033	-
Finance leases	690	294
Total current borrowings	**79,284**	**50,526**
Non-current		
Interest bearing loans due to banks	22,437	46,282
Finance leases	2,038	145
Total non-current borrowings	**24,475**	**46,427**
Total borrowings	**103,759**	**96,953**

At 31 December 2013 bank loans in the amount of EUR 34,061 thousand (2012: EUR 13,672 thousand) are classified as short-term. They relate to the renewable long-term credit lines with maturity dates in 2015. According to the loan agreements' terms the Company must repay the outstanding principal amount of the loan annually. The next day after repayment the Company is able to take 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:

	2013	2012
6 months or less	68,076	83,281
6-12 months	35,683	-
1-3 years	-	13,672
	103,759	**96,953**

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

	31 December 2013					31 December 2012			
	USD	UAH	RUR	PLN	Total	USD	UAH	RUR	Total
12 months or less									
Outstanding balance, thousand EUR	49,970	4,455	21,459	3,400	**79,284**	26,121	294	24,111	**50,526**
Average interest rate, %	10.27	17.87	9.90	4.46	**10.35**	10.83	12.30	10.23	**10.55**
1-5 years									
Outstanding balance, thousand EUR	22,437	12	-	2,026	**24,475**	46,287	140	-	**46,427**
Average interest rate, %	11.00	24.00	-	5.61	**10.56**	10.83	12.30	-	**10.83**

At 31 December 2013 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 2013		31 December 2012	
	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 recognised directly in other comprehensive income and accumulated in the currency translation reserve.

20 Dividends per share

The dividends paid in 2013 were EUR 2,500 thousand (EUR 0.08 per ordinary share). No dividends were declared and paid in 2012.

21 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, 60% of the VAT charged by the dairy processors should be used to pay subsidies to dairy farmers in 2013. The remaining 40% 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 5,634 thousand the Group obtained in 2013 (2012: EUR 8,289 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 recognised this sum as deferred income and calculated a respective amortisation in 2013 of EUR 96 thousand (2012: EUR 129 thousand) as deduction of other expenses.
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:	2013	2012
Balance at the beginning of the year	362	473
Grant obtained during the year	-	-
Amortisation of government grant	(96)	(129)
Foreign exchange difference	(33)	18
Balance at the end of the year	**233**	**362**

22 Revenue

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

	2013	2012
Cheese & Butter	156,654	145,274
Whole-milk products	144,449	114,667
Ingredients	39,870	27,072
Total revenue	**340,973**	**287,013**

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

	2013	2012
Russia	211,869	184,133
Ukraine	106,010	90,627
Poland	14,349	232
Other	8,745	12,021
Total revenue	**340,973**	**287,013**

23 Change in fair value of biological assets

Change in fair value of biological assets at the amount of EUR 1,305 thousand (2012: EUR 934 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)

24 Cost of sales

	2013	2012
Raw and other materials	197,571	139,687
Wages and salaries	16,540	15,604
Depreciation	11,150	11,523
Transportation costs	9,962	9,997
Gas	10,100	9,271
Electricity	7,437	6,395
Social insurance contributions	5,592	5,605
Repairs of property, plant and equipment	3,661	4,230
Water	1,066	888
Other	8,805	5,422
Changes in finished goods and work in progress	(3,074)	1,115
Total cost of sales	**268,810**	**209,737**

25 Selling and distribution expenses

	2013	2012
Transportation costs	11,096	11,211
Security and other services	5,226	4,405
Marketing and advertising	1,401	1,701
Wages and salaries	6,815	6,009
Social insurance contributions	2,046	1,823
License fees	281	325
Rental costs	536	130
Depreciation and amortisation	333	124
Other	1,109	450
Total selling expenses	**28,843**	**26,178**

26 Administrative expenses

	2013	2012
Wages and salaries	12,966	10,809
Social insurance contributions	3,061	2,587
Taxes and other charges	1,740	1,292
Representative charges	878	1,767
Other utilities	283	529
Bank charges	2,698	3,233
Repairs and maintenance	674	444
Depreciation and amortisation	2,228	1,672
Consulting fees	3,142	2,085
Security and other services	648	586
Transportation costs	685	514
Property insurance	690	687
Rental costs	533	226
Communication	370	352
Office supplies	101	208
Other	1,171	704
Total administrative expenses	**31,868**	**27,695**

(All amounts in euro thousands unless otherwise stated)

27 Other income/(expenses), net

	2013	2012
Government grants recognised as income	5,634	8,289
Rental income	422	446
Gain from write off of accounts payable	185	44
Change in provision and write off of trade and other accounts receivable	883	(926)
Depreciation	(265)	(174)
Other expenses	(333)	(179)
Loss from disposal of non-current assets	(166)	(670)
Loss from disposal and write off of inventories	(16)	(1,501)
Penalties	(278)	(722)
Transaction cost	-	(1,303)
Operational foreign exchange results, net	2,193	(497)
Change in provision and write off of VAT receivable	(1,839)	(6,928)
Total other income/(expenses), net	**6,420**	**(4,121)**

28 Finance income

	2013	2012
Other finance income	3,126	-
Finance foreign exchange income, net	1,876	988
Bank deposits	728	2,340
Total finance income	**5,730**	**3,328**

During 2013 the Group recognized EUR 3,109 thousand of other finance income from related parties as penalties due to the cancellation of agricultural investments for which these related parties were commissioned. Refer to note 6 for further elaboration.

29 Finance expenses

	2013	2012
Bank borrowings	8,796	8,565
Other borrowings	-	293
Finance leases	104	81
Discounting of loans	1,571	561
Finance foreign exchange expenses, net	731	-
Total finance expenses	**11,202**	**9,500**

(All amounts in euro thousands unless otherwise stated)

30 Income tax

	2013	2012
Current income tax expense	2,920	4,380
Deferred income tax benefit	(860)	(2,572)
Income tax expense	**2,060**	**1,808**

The Group operates in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine, Russia and Poland). In 2013 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 19% (2012: 21%), Russian profit tax was levied at the rate of 20% (2012: 20%), Poland profit tax was levied at the rate of 19% (2012: 19%). In 2013 the tax rate for Panama operations was 0% (2012: 0%) on worldwide income.

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

	2013	2012
Profit before taxation, including	**13,720**	**15,369**
Profit of companies levied a single agricultural tax (Ukrainian operations)	3,919	1,700
Profit of Ukrainian companies	1,372	806
Profit of Russian companies	326	469
Loss of Poland companies	(4,443)	(589)
Profit before income tax of other companies	12,546	12,983
Income tax charge at statutory rate of 19% (2012: 21%) (Ukrainian operations)	261	169
Income tax charge at statutory rate of 20% (Russian operations)	65	94
Income tax charge at statutory rate of 25.5% (Dutch operations)	(546)	(239)
Income tax charge at statutory rate of 19% (Poland operations)	(844)	(112)
Income tax charge at statutory rate of 10% (Cyprus operations)	(3)	11
Change in deferred income taxes resulting from reduction in tax rate	(2)	(264)
Provision in respect of irrecoverable deferred income tax asset	-	(5,593)
Reassessment of deferred income tax liability	(124)	802
Tax effect of items which are permanently not deductible or assessable for taxation purposes	3,253	6,940
Income tax expense	**2,060**	**1,808**

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 income tax assets of one company of the Group are not subject to offsetting against deferred income tax liabilities of another company of the Group. The deferred income tax liabilities and assets reflected in the consolidated statement of financial position as at 31 December are as follows:

	2013	2012
Deferred income tax liability	(27,177)	(30,715)
Deferred income tax asset	8,405	9,754
	(18,772)	(20,961)

(All amounts in euro thousands unless otherwise stated)

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

	1 January 2013	Deferred income tax of acquired subsidiaries	Deferred income tax income or expense recognised in profit or loss	Currency Translation	31 December 2013
Recognised deferred income tax assets attributable to the following elements:					
Trade and other receivables	1,687	-	(647)	(64)	976
Inventories	243	-	(107)	(7)	129
Property, plant and equipment	10	-	67	(3)	74
Trade and other payables	297	-	249	(11)	535
Advances received	54,562	-	(4,612)	(2,190)	47,760
Financial lease liability	-	-	597	7	604
Other	147	-	(79)	(11)	57
Tax losses carried forward	7,259	-	(2,713)	(175)	4,371
Less accrued provision	(8,441)	-	-	365	(8,076)
Defered income	72	-	(19)	(6)	47
Netting with deferred income tax liabilities	(46,082)	-	6,287	1,723	(38,072)
Deffered income tax assets	**9,754**	**-**	**(977)**	**(372)**	**8,405**
Recognised deferred income tax liabilities attributable to the following elements:					
Inventories					
Trade and other receivables	(215)	-	6	7	(202)
Advances paid and prepaid expenses	(57,560)	-	6,906	2,234	(48,420)
Property, plant and equipment	(19,022)	-	1,212	1,183	(16,627)
Netting with deferred income tax assets	46,082	-	(6,287)	(1,723)	38,072
Deferred income tax liabilities	**(30,715)**	**-**	**1,837**	**1,701**	**(27,177)**
Total deferred income tax assets and liabilities	**(20,961)**	**-**	**860**	**1,329**	**(18,772)**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2012:

	1 January 2012	Deferred income tax of acquired subsidiaries	Deferred income tax income or expense recognised in profit or loss	Currency Translation	31 December 2012
Recognised deferred income 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 income tax liabilities	(63,966)	(212)	16,742	1,355	(46,081)
Deffered income tax assets	**21,061**	**-**	**(11,779)**	**472**	**9,754**
Recognised deferred income 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)	-	29,910	908	(57,560)
Property, plant and equipment	(19,556)	(914)	1,524	(76)	(19,022)
Netting with deferred income tax assets	63,966	212	(16,742)	(1,354)	46,082
Deferred income tax liabilities	**(43,874)**	**(702)**	**14,351**	**(490)**	**(30,715)**
Total deferred income tax assets and liabilities	**(22,813)**	**(702)**	**2,572**	**(18)**	**(20,961)**

(All amounts in euro thousands unless otherwise stated)

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

The Company's ability to realise deferred income 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 2013 deferred income tax assets are shown net of provision for irrecoverable deferred income tax assets at the amount of EUR 8,076 thousand (2012: EUR 8,441 thousand).

31 Changes in presentation

In the course of preparation of financial statements for the financial year ended 31 December 2013 management has revised accounting for recognition of exchange differences on monetary items. Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "finance income" or "finance expenses" on net basis. All other foreign exchange gains and losses are presented in the statement of comprehensive income within "Other expenses, net".

Effects of reclassifications on the statement of comprehensive income for the financial year ended 31 December 2012 are summarized in the table below:

	As previously reported	Reclassifications	As reclassified
Statement of Comprehensive Income			
Other expenses, net	(3,624)	(497)	(4,121)
Operating Profit	22,038	(497)	21,541
Finance income	2,340	988	3,328
Foreign exchange gain/(loss), net	491	(491)	-
EBITDA	37,885	(497)	37,388

32 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.

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretations by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the power to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in

their interpretation and enforcement of tax legislation and it is possible that transactions and activities that have not been challenged in the past may be disputed.
The circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. However, the interpretations of the relative authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.
Possible tax risks related to the Russian segment operations in the amount of about EUR 3,676 thousand were identified. This amount includes tax risks for income tax and VAT for the period of last 3 years.
Management believes that the Group's position can be sustained on these matters based on the understanding of current legislation and due to the fact that all respective Russian segment operations are performed within the general practice inherent for Russian business environment.

Insurance policies

The Group insures all significant property. As at 31 December 2013, 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 2013 the Company insured its property, plant and equipment for a total amount of EUR 104,117 thousand (2012: EUR 83,689 thousand).

33 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 2013 and 2012 no changes were made in objectives, policies and procedures of the capital management.

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

The Group has external requirements to the capital:

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

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

The Group has met external capital disclosures per 31 December 2013.

As at 31 December 2013 the net debt to capital ratio was 51.70% compared to 40.91% a year before. The net debt to capital ratio at 31 December is as follows:

(All amounts in euro thousands unless otherwise stated)

	2013	**2012**
Total borrowings	103,759	96,953
Less: cash and cash equivalents	(13,056)	(23,850)
Net debt	**90,703**	**73,103**
Total equity	175,436	178,685
Total capital	**266,139**	**251,788**
Net debt to capital ratio	**51.70%**	**40.91%**

34 Financial risk management

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

Market risk

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

Foreign exchange risk

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

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

As of 31 December 2013 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	-	17,766	13,936	14,185	1,232	**47,119**
Cash and cash equivalents	6,072	977	1,520	4,132	355	**13,056**
Total financial assets	**6,072**	**18,743**	**15,456**	**18,317**	**1,587**	**60,175**
Financial Liabilities						
Loans and borrowings	-	72,406	21,460	4,467	5,426	**103,759**
Financial payables within trade and other payables	-	4,959	6,293	6,967	3,307	**21,526**
Total financial liabilities	**-**	**77,365**	**27,753**	**11,434**	**8,733**	**125,285**

(All amounts in euro thousands unless otherwise stated)

Comparative information for 2012:

	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**

The following table presents sensitivities of post-tax profit for the year to reasonably possible changes in exchange rates applied at the statement of financial position date relative to the functional currency of the respective Group entities, with all other variables held constant:

	2013	**2012**
USD strengthening by 10% (2012: 10%)	(982)	(4,224)
USD weakening by 10% (2012: 10%)	982	4,224
UAH strengthening by 10% (2012: 10%)	492	452
UAH weakening by 10% (2012: 10%)	(492)	(452)
RUR strengthening by 10% (2012: 10%)	282	480
RUR weakening by 10% (2012: 10%)	(282)	(480)

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

Credit risk

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

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

(All amounts in euro thousands unless otherwise stated)

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

	2013	2012
Ratings by Moody's		
A2	108	-
Baa1	217	144
Baa2	75	-
Baa3	-	-
Ba1	8	165
B1	-	48
B2	-	19
B3	-	729
Caa3	714	-
Unrated	11,064	21,252
Cash on hand	870	1,493
Total cash and cash equivalents	**13,056**	**23,850**

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

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

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

	31 December 2013		31 December 2012	
Financial assets	**Carrying value**	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Cash and cash equivalents	13,056	13,056	23,850	23,850
Trade and other receivables	47,119	47,119	36,947	36,947
	60,175	**60,175**	**60,797**	**60,797**

Interest rate risk

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

(All amounts in euro thousands unless otherwise stated)

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

At the end of 2013 the Group had approximately 44% (2012: 25%) of its borrowings in fixed rate instruments and 56% (2012: 75%) in variable rate instruments.

At 31 December 2013, if interest rates on borrowings with had been 1% higher/lower (2012: 1%) with all other variables held constant, post-tax profit for the year would have been EUR 449 thousand lower/higher (2012: EUR 544 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 statement of financial position 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)	21,526	-	-	-
Borrowings	33,113	44,086	27,744	-
Total	**54,639**	**44,086**	**27,744**	**-**

Comparative information at 31 December 2012 is as follows:

	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**	**-**

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.

35 Earnings per share

	2013	2012
Numerator		
Earnings used in basic and diluted EPS	10,835	12,771
Denominator, in thousand		
Weighted average number of shares used in basic and diluted EPS	31,250	31,250

36 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 &Belasting adviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	167	-	29	**196**
Tax advisory fees	-	-	-	**-**
Total	**167**	**-**	**29**	**196**

Comparative information for 2012:

	BDO Audit & Assurance B.V.	BDO Accountants &Belasting adviseurs	Member firms/affiliates	Total
Charged to administrative expenses				
Audit annual accounts	136	-	-	**136**
Tax advisory fees	-	27	-	**27**
Total	**136**	**27**	**-**	**163**

37 Subsequent events

Political situation in Ukraine

The Group performs its activities in Ukraine in the environment of political and economic crisis that has aggravated since November 2013. The assets of the company in Ukraine are mainly located in Central, West and North-East of the country and not in the current tumultuous East of Ukraine.

However, as a possible consequence of the current crisis, the economic and financial situation in Ukraine could further deteriorate, which, inter alia, could lead to the significant devaluation of Ukrainian and Russian currencies, declining demand for FMCG goods at one of the Group's core markets, difficulties with performing of foreign trade operations from Ukraine to CIS countries, firstly Russia.

These unfavorable developments might have an adverse effect on the Group's business and its financial statements, including by lowering the valuation of its assets in hard currency equivalent. For the more information about foreign exchange risk, refer note 34.

At the moment it's unpredictable how the crisis will evolve and because of this the management cannot make a reliable estimation of the financial consequence of the crisis for the Group.

New financing arrangements

In February 2014 the Group obtained in Ukraine financing from the Ukrainian subsidiary of Credit Agricole Group in total amount up to USD 15 million. The financing comprises a credit for 5 years with 8-month grace period in amount of USD 7.5 million and the credit line for 3 years with a limit up to USD 7.5 million. The financing is secured by pledge of assets and goods of DE “Milkiland Ukraine” and its subsidiaries.

COMPANY FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts in euro thousands unless otherwise stated)

	Notes	31 December 2013	31 December 2012
ASSETS			
Current Assets			
Cash and cash equivalents		139	183
Amounts due from group companies	5	59,951	84,366
Other receivables and prepayments	5	71	70
Other taxes receivable	5	-	6
		60,161	**84,625**
Fixed assets			
Goodwill	3	2,114	2,114
Investments in subsidiaries	4	177,899	171,700
		180,013	**173,814**
TOTAL ASSETS		**240,174**	**258,439**
LIABILITIES AND EQUITY			
Current liabilities			
Amounts due to group companies	7	21,543	15,073
Loans and borrowings	8	26,153	25,542
Other payables	7	251	383
Other taxes payables		7	17
		47,954	**41,015**
Non-Current Liabilities			
Loans and borrowings	8	21,883	45,123
		21,883	**45,123**
TOTAL LIABILITIES		**69,837**	**86,138**
Shareholder's equity			
Issued and paid-up share capital		3,125	3,125
Share premium		48,687	48,687
Revaluation reserve		48,752	53,228
Currency translation reserve		(18,277)	(7,441)
Retained earnings and unappropriated result		88,050	74,702
Total equity	6	**170,337**	**172,301**
TOTAL LIABILITIES AND EQUITY		**240,174**	**258,439**

(All amounts in euro thousands unless otherwise stated)

	Notes	2013	2012
Revenue from Group companies		237	700
Administrative expenses	9	(1,230)	(1,467)
Other expenses		(4)	(545)
Operating loss		**(997)**	**(1,312)**
Finance income	10	6,015	5,595
Finance expenses	11	(7,158)	(5,220)
Loss before income tax		**(2,140)**	**(937)**
Share of profit of participating interests, after income tax		12,975	13,708
Profit for the year		**10,835**	**12,771**

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 statement of financial position 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 statement of comprehensive income.

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 recognised 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 recognised.

3. Goodwill

The goodwill of EUR 2,114 thousand (2012: EUR 2,114 thousand) is a result of a subsidiary acquisition and recognised as an asset. Goodwill is initially recognised as an asset during the primary evaluation. Impairment testing is performed annually.

For details see note 11 in consolidated financial statements.

4. Investments in participating interests

	31 December 2013	31 December 2012
JSC Ostankino Dairy Combine, Russia	39,038	41,380
DE Milkiland Ukraine, Ukraine	131,930	120,294
LLC Milkiland RU, Russia	1,671	-
LLC Milkiland N.V, Ukraine	(1,194)	(434)
Milkiland Intermarket (CY) LTD, Cyprus	(541)	(262)
MLK Finance Limited, Cyprus	210	145
Milkiland EU sp. z.o.o., Poland	6,785	10,577
Total investments in participating interests	**177,899**	**171,700**

Movement during the year is the following:

	2013	2012
At 1 January	171,700	146,965
Profit for the year	12,975	12,771
Currency translation differences	(10,298)	400
Acquisition of minority shares in Ostankino Dairy Combine, Russia	1,415	166
Investments into subsidiaries	2,107	11,398
At 31 December	**177,899**	**171,700**

(All amounts in euro thousands unless otherwise stated)

For the period from 1 January 2013 to 31 December 2013 the Company had the following direct subsidiaries:

Name	Country of incorporation	Share of ownership 31 December 2013	31 December 2012
MLK Finance Limited	Cyprus	100.0%	100.0%
Milkiland Intermarket (CY) LTD	Cyprus	100.0%	100.0%
Milkiland EU sp. z.o.o.	Poland	100.0%	100.0%
JSC Ostankino Dairy Combine	Russia	100.0%	95.9%
LLC Milkiland RU	Russia	100.0%	100.0%
DE Milkiland Ukraine	Ukraine	100.0%	100.0%
LLC Milkiland N.V	Ukraine	100.0%	100.0%

5. Receivables

	31 December 2013	31 December 2012
Amounts due from group companies		
MLK Finance Limited	50,948	79,863
Milkiland EU sp. z.o.o.	8,811	4,233
DE Milkiland Ukraine	40	170
Milkiland Intermarket (CY) LTD	73	100
JSC Ostankino Dairy Combine, Russia	58	-
LLC Milkiland RU, Russia	21	-
Total amounts due from group companies	**59,951**	**84,366**
Other receivables and prepayments		
Other receivables	71	70
Total other receivables and prepayments	**71**	**70**
Taxes and social security		
Payroll related taxes	-	6
Total taxes receivable	**-**	**6**

At 31 December 2013 accounts receivable from MLK Finance Limited represented by EUR 50,578 thousand (2012: 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 371 thousand (2012: EUR 468 thousand). The loan issued with interest rate of 7.8% plus LIBOR per annum.

At 31 December 2013 accounts receivable from Milkiland EU sp. z.o.o. include EUR 7,440 thousand (2012: EUR 2,950 thousand) of loan issued to this company with interest rate of 7.8% plus LIBOR per annum, EUR 754 thousand (2012: EUR 75 thousand) of accrued interest and EUR 617 thousand (2012: 1,208 thousand) of trade payables.

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 unappropriated result	Total
Balance as at 1 January 2012	**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**
Total comprehensive income for the year	-	-	(10,663)	-	10,835	172
Acquisition of minority shares	-	-	(173)	256	281	364
Declaration of Dividends	-	-	-	-	(2,500)	(2,500)
Realised revaluation reserve, net of income tax	-	-	-	(4,732)	4,732	-
Balance as at 31 December 2013	**3,125**	**48,687**	**(18,277)**	**48,752**	**88,050**	**170,337**

7. Trade and other payables

	31 December 2013	31 December 2012
Amounts due to Group companies		
Milkiland Corporation	21,506	14,255
LLC Milkiland N.V	37	593
LLC Milkiland Agro	-	48
LLC Torgovyi dim Milkiland	-	48
LLC Ukrainian Milk House	-	48
DE Milkiland Ukraine	-	46
LLC Milkiland Intermarket	-	29
LLC Moloko-Kraina	-	6
Total amounts due to Group companies	**21,543**	**15,073**
Other payables		
Other accounts payable	-	56
Trade payables	8	-
Interest payable	163	188
Wages and salaries payable	80	139
Total other payables	**251**	**383**

(All amounts in euro thousands unless otherwise stated)

Accounts payable to Milkiland Corporation include a financial aid from Milkiland Corporation at the amount of EUR 21,506 thousand. This financial aid to Milkiland Corporation are free of interest rates.

As at 31 December 2012 accounts payable to Milkiland Corporation include a loan received from Milkiland Corporation at the amount of EUR 3,870 thousand bearing interest rate of 3% per annum. Accrued interest as at 31 December 2012 amounts EUR 234 thousand. Accounts payable to Milkiland Corporation at the amount of EUR 10,150 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

	2013	2012
Consultancy fee	240	188
Tax advisory and audit fee	167	79
Wages and salaries	652	942
Other expenses	171	258
Total administrative expenses	**1,230**	**1,467**

Audit fees are disclosed in note 36 to consolidated financial statements.

10. Finance income

	2013	2012
DE Milkiland Ukraine	14	3,960
MLK Finance Limited	5,419	1,448
Milkiland EU sp. z.o.o.	544	75
LLC Milkiland RU	35	-
Bank deposits	3	46
Finance foreign exchange income, net	-	66
Total finance income	**6,015**	**5,595**

11. Finance expenses

	2013	2012
Bank borrowings	5,342	4,505
Milkiland Corporation	29	116
Other finance expense	-	37
Discounting of loans	1,503	562
Finance foreign exchange loss, net	284	-
Total finance expenses	**7,158**	**5,220**

12. 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, 28 April 2014

O. Rozhko	**A. Yurkevych**	**O. Yurkevych**	
V. Rekov	**W. S. van Walt Meijer**	**G. Logush**	**V. Strukov**

OTHER INFORMATION

Profit allocation and distribution in accordance with articles of association

The Company`s Articles of Association lay down the following conditions regarding the appropriation of profit (summary):

Article 25

1. From the profits such amounts shall be reserved as the Board of Directors shall determine.
2. Any profit remaining after application of the previous paragraph shall be at the disposal of the General Meeting of Shareholders for distribution of dividend or reservation.
3. In calculating the amount of profits to be distributed on each share, only the par value of the shares shall be regarded.
4. The Company shall only be capable of making distributions to shareholders and other persons who are entitled to profits that qualify for distribution if the Company's equity is in excess of the paid and called-up portion of the share capital increased by the reserves that must be set aside under the provisions of the law. In the calculation of the distribution of profits the shares which the Company holds in its own share capital shall be disregarded.
5. Distribution of profits shall take place after confirmation and adoption of the Annual Accounts showing that this is allowed.
6. The Board of Directors shall have power to pay one or more interim dividends provided that the requirement concerning the Company's equity has been met.
7. Unless the Board of Directors decides on a different date, dividends shall be made payable immediately after they have been declared.
8. Dividends that have not been collected within five years after they have become payable, shall be forfeited to the Company.
9. Distributions can be made in cash or in kind.
10. The Board of Directors shall have the power to resolve upon distributions (which shall include interim distributions) from the Company's reserves, provided that the requirement concerning the Company's equity has been met.
11. The Company may only make interim distributions if the requirement of this article has been met as evidenced by an interim statement of assets and liabilities of the Dutch Civil Code.

Proposal for profit allocation

In accordance with the resolution of the General Meeting of Shareholders held at 21 June 2013, cash dividend of EUR 0.08 per ordinary share being EUR 2,500 thousand in total were declared and paid in 2013, while the residual profit was added to reserves.

The net profit for 2013 attributable to the shareholders amounting to EUR 10,835 thousand shall be available in accordance with Article 25 of the Company’s Articles of Association.

The Board of Directors intends to propose to the Annual General Meeting of Shareholders to continue the modest dividend payment based at the financial result of the year 2013.

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 2013 of Milkiland N.V., Amsterdam. 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, 2013, 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, 2013 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.

Emphasis of matters

Without further qualifying our opinion, we would like to draw your attention to disclosures in Note 37 to these financial statements, which indicate that the Company performs its activities in the environment of political and economic crisis that has aggravated since November 2013. These financial statements do not include any adjustments, which might have arisen should the Company been unable to continue as a going concern. Such adjustments shall be addressed when become known and can be reliably assessed.

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, 2013 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, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

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

Rotterdam, **28 April 2014**

For and on behalf of BDO Audit & Assurance B.V.,

/signed/

CORPORATE INFORMATION

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Milkiland: Top-line Growth in All Segments

Press-release

Kyiv, 28th April 2014 – *Milkiland N.V. has published its consolidated annual report for the year 2013. As newly acquired EU assets launched their operations, sales revenue grew double digit significantly outperforming the market.*

Key highlights of 2013

Financials

- Financial performance: Revenue grew 19% to EUR 341 million. EBITDA declined 10% to EUR 33.4 million, EBITDA margin squeezed to 10% in 2013 on the back of high raw milk prices. Net profit of EUR 11.7 million 14% down y-o-y
- Financial position: The Group's total assets grew 4% y-o-y to EUR 336.5 million. Total debt ratio grew from 0.45 to 0.48; net debt grew to EUR 90.7 million on the back of lower cash and cash equivalents. Net Debt/EBITDA ratio increased from 1.96 to 2.71 due to higher net debt in 2013 and lower EBITDA, however stayed at a healthy level. Working capital decreased to EUR 20.5 million
- Net cash by the year end decreased to EUR 13.1 million as a result of lower cash flow provided by operations and intensive investments into modernization of cheese production assets in Poland, Russia and Ukraine, as well as in the Ukrainian agricultural operations

Operations

- **Raw milk prices**: Harsh weather conditions in world's key milk producing regions, coupled with continued stagnation of milk farming in Milkiland's core markets, resulted in raw milk prices up 17% in Russia and 26% in Ukraine
- **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 reached c.23% in 2013. In order to secure larger volumes of in-house milk, in 2012 the Group commenced construction of the modern 6,800 stalls dairy farm. The first section of new dairy farm was put in operation and filled by 1,700 milking cows in 2013. Milkiland Agro provided for c. 4% of the Group's total milk intake in Ukraine
- In 2013, the Group reinforced its positions on the Ukrainian cheese market and became the largest exporter of Ukrainian cheese supplying, mainly to Russia, over 33% of the total Ukrainian cheese exports. Start of Ostrowia cheese exports to Ukraine also triggered the sales growth. As a result, Milkiland's **cheese & butter** segment revenues grew by c. 8% to EUR 156.7 million
- The Group's total revenues in the fresh dairy (**WMP**) segment grew by c. 26% and amounted to c. EUR 144 million in 2013. The segment's EBITDA increased to EUR 12.2 million compared to EUR 11.1 million or by c. 10% on y-o-y basis. In Ukraine, the key focus was made on product renovation and new products introduction under Dobryana brand. In Russia, the product portfolio was further optimized, while the Group finished rebranding of fresh dairy under renewed Ostankinskoye umbrella brand
- In 2013, the Group capitalised on positive trends on the global dairy market and increased its sales of **ingredients** in volume and value terms. This growth was achieved due to successful sales of high value added products (WPC-80,

permeate) by Ostrowia, as well as a sharp rise in prices. As the result, Milkiland's revenues in this segment rose by 46% and amounted to EUR 39.9 million. Ingredients sales contributed EUR 5.0 million of EBITDA, representing 13% EBITDA margin (EUR 3.3 million and 12% respectively in 2012)

Milkiland reached historically record high earnings driven by better volume sales in all segments and better pricing. As a result, revenue grew 19% to EUR 341 million. At the same time, a sharp increase in raw milk prices created a pressure on the Group's bottom line. Worsened situation on the raw milk market contributed to a 10% decrease in EBITDA to EUR 33.4 million with EBITDA margin of 10%.

Milkiland appreciates the importance of quality and affordable raw milk, and therefore set vertical integration as one of its cornerstone strategic initiatives. In order to address milk supply bottleneck, in 2013 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 2013 the Group launched its first modern milk farm with planned capacity of 50 kt of milk per year.In its raw milk supply initiatives the Group also supported milk cooperatives in its milk zone. During 2013, the cooperatives demonstrated healthy growth, and the share of their supplies to Milkiland accounted for 23% on the total milk intake in Ukraine.

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 2013, the Group brought its Polish-based Ostrowia in full compliance to requirements of Russian and Ukrainian veterinary authorities and resumed full scale operations. Cheese sales to Ukraine started in fall 2013. Milkiland's next task for Ostrowia is to enjoy efficiency of scale achieving higher capacity utilization levels (22% in 2013) and to further increase the volumes of milk processed in the current year

In 2013, Milkiland's Moscow-based Ostankino Dairy Combine delivered a healthy double-digit increase in revenues (+24% y-o-y) and proved attractive strategic prospective of the Group's business in Russia. The redesign made to Ostankinskoye brand in 2012-13, with innovative products and new packaging, was welcomed by the consumers, and resulted in much better conduct with the Group's key accounts. Ostankino's sales continue to grow, and its 2014 business plan envisions further growth, both in revenue and profitability.

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

"The major challenge for our Group, started in 2013 and deepening to date, is deterioration of political and economic relations between Russia and Ukraine, triggering obstacles to Milkiland's exports to Russia. In the short term, the Group intends to address the problem by exploiting its diversified business model, capturing new export markets, and using devaluation of Ukrainian local currency to the benefit

of exports from Ukraine. Also, our Polish cheese making division is ready to replace some Ukrainian volumes. In the long term, we believe that tensions between Ukraine and Russia will ease, and normal trade relations restored, to the mutual benefit of our countries.

"We remain committed to strengthen the business of the Group in order to deliver a profitable growth for our shareholders and partners. Our aim is to turn Milkiland to undisputable example of value creation by striving for the development and achievement of ambitious goals in any operating environment."

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 Ostankinskaya brands. Also, Dobryana Ukrainian cheese is sold in most of Russian regions. In Ukraine, the company operates 10 plants and offers wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands.

In Poland, Milkiland Group controls Mazowiecka Spoldzielnia Mleczarska Ostrowia, the cheese production plant located in in Ostrów Mazowiecka town. 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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